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ABSTRACTS

The Political Economy of Transition:
Japanese Foreign Direct Investments in the 1980s
By YOUNG-KWAN YOON

The issue of Japanese foreign direct investment (FDI) has attracted scant attention because of its relative insignificance to the Japanese economy before the 1980s. In the 1970s only a few analysts explained the Japanese FDI behavior from a macroeconomic perspective. This paper argues that there has been a noticeable change in the nature of Japanese FDI in the 1980s, a position that supports the traditional microeconomic explanation based on the oligopolistic market theory. This convergence toward the "Western" style of FDI reflects a fundamental shift of the Japanese economy from a trade-oriented economy to one that is foreign investment–oriented. However, as the experiences of two hegemonic states (Great Britain and the United States) have shown, foreign investment is not the best economic strategy from a long-term perspective. Preliminary evidence in recent years indicates that increasing FDI affects Japan's productivity growth negatively by weakening both the production base and the various sources of Japanese competitiveness.

Pride of Place:
The Origins of German Hegemony
By BRUCE BUENO DE MESQUITA

Using a game-theoretic model of international interactions, the author shows that system-transforming wars can result from a relatively small dispute between rivals who are basically satisfied with the international status quo. Such wars are likely to be relatively low in costs even if they are profound in their consequences. The possibility of such system-transforming wars is overlooked by the theories of power-transition, or hegemonic, war.

The Seven Weeks' War is an example of a system-transforming conflict that can be understood by combining the insights of theories concerned with differential growth rates and of those derived from the game-theoretic perspective suggested here. The combination of these two perspectives expands the explanatory potential of existing theories of system-transforming wars.

Postrevolutionary Mobilization in China:
The One-Child Policy Reconsidered
By TYRENE WHITE

The modernization or developmental model of communist regimes has been widely criticized, but the concept of revolutionary and postrevolutionary phases has endured. Implied in the dichotomy is a fundamental conflict between the politics of revolutionary mobilization (characterized by the push to disrupt and transform bourgeois routines and institutions of the old regime) and the postrevolutionary politics of regularized decision making and institutionalized party rule. The author uses the post-Mao Chinese experience and a case study of China's one-child policy to argue that variant forms of mobilization have remained an integral part of the postrevolutionary Chinese political process, as the Deng regime attempts to rearrange the institutions and routines characteristic of Maoist China rapidly and fundamentally, while preserving a Leninist political order.

Framing the National Interest:
The Manipulation of Foreign Policy Decisions in Group Settings
By ZEEV MAOZ

Social psychologists have long attempted to explain the group-induced shift phenomenon: that it is impossible to predict group choices from knowledge of individual preferences prior to group discussion, and that individuals change their choices during group deliberations. Most explanations of group-induced shifts have focused on substantive changes in individual preferences induced by group dynamics. This study explores the possibility that individual

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preferences do not necessarily change in the course of group discussions. Rather, decision makers may switch their choice in part because one or more individuals manipulate the decision-making process in a manner that helps them achieve their desired outcome. The study distinguishes between rational and nonrational variations of decisional manipulation and considers examples of U.S. and Israeli foreign policy choices under crisis conditions to illustrate such processes. The implications of these ideas for the study of foreign policy decisions are discussed.

The State and the Effective Control of Foreign Capital: the case of South Korea

By RUSSELL MARDON

The literature on the political economy of developing nations has focused attention upon the weakness and vulnerability of the nation-state and its limited ability to deal with and effectively alter the dominant forces of the international economy. Despite common international structures, however, the empirical pattern of foreign ownership and control of the means of production varies in newly industrializing nations. Domestic political structures and alternative state strategies may therefore have a significant impact on the pattern of foreign ownership and on the degree of control that foreign capital may exert on a developing economy.

The author examines the principal legal and bureaucratic mechanisms utilized by the South Korean state to regulate the domestic economy's interaction with international capital, as well as the impact of these mechanisms upon domestic production patterns. The South Korean case demonstrates that, through the formulation and implementation of appropriate policy, the state in a developing nation possesses the capacity to shape the pattern of interaction with international economic forces. Legal and bureaucratic mechanisms have facilitated an industrial development that is predominantly owned and effectively controlled by Korean nationals.

Understanding International Trade Policies: an emerging synthesis

By JOHN S. ODELL

The international trade problems of the 1980s stimulated an expansion of scholarship on trade policies by economists and political scientists. At least four distinct theoretical perspectives weave their way through recent literature that concentrates on the United States—emphasizing market conditions, policy beliefs and values, national political institutions, and global structures, respectively. New studies in each of these traditions advance beyond the work of their predecessors, but none of the perspectives has yet proved adequate as a single unifying vehicle. Nevertheless, we can also see clear movement toward a synthesis, with single works blending insights from several traditions. Thus, the books under review do not all fall neatly into the familiar exclusive categories of "economics" or "political science." The emerging synthesis needs strengthening in several ways, including the development of "conditioning hypotheses" that will reduce remaining apparent confusions.

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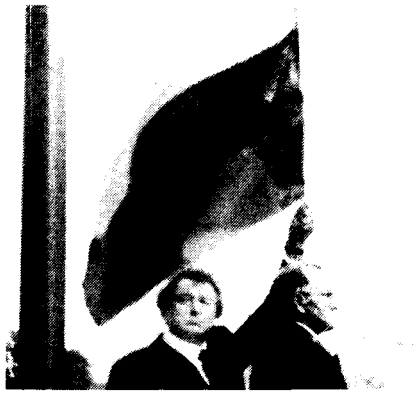

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THE POLITICAL ECONOMY OF TRANSITION

Japanese Foreign Direct Investments in the 1980s

By YOUNG-KWAN YOON*

Introduction

An important issue in the area of international political economy since the 1970s has been explaining the success of the Japanese economy. Analysts have sought to identify causes of Japan's rapid economic growth in the post–World War II period in studies that may be assigned to two broad categories: the market and the nonmarket approaches.

According to the first approach, which concentrates on the concept of the market in explaining Japan's economic performance, the rapid economic growth of Japan was simply the result of the operation of market rationality and was not related to the uniqueness of the Japanese polity, society, or culture or to any other nonmarket factors. Hugh Patrick, Philip Trezise, and most other economists are proponents of this approach.[1] They assume that the concept of the market can be applied universally and that Japan is no exception.

The second, nonmarket approach focuses on concepts or aspects other than the market, such as Japan's state, institutions, psychology, culture, free-rider position, and so forth. Chalmers Johnson, for instance, formulated the concept of the "developmental state" to explain Japanese industrial development.[2] Though scholars working in this genre empha-

* This is a substantially revised version of a paper presented at the American Political Science Association Convention in Chicago in 1987. For their helpful comments and suggestions on earlier drafts of this paper, I would like to thank Charles F. Doran, Gary G. Hamilton, Jeffrey A. Hart, Robert Jackman, Bruce W. Jentleson, Edward J. Lincoln, George R. Packard, and Donald Rothchild. I remain entirely responsible, however, for the argument. I am also grateful for the research support of the University of California and to friends in Japan for their help during my research trip in Tokyo.

[1] Patrick, "The Future of the Japanese Economy: Output and Labor Productivity," *Journal of Japanese Studies* 3 (Summer 1977), 219–49; Trezise, "Politics, Government, and Economic Growth in Japan," in Hugh Patrick and Henry Rosovsky, eds., *Asia's New Giant: How the Japanese Economy Works* (Washington, DC: Brookings, 1976).

[2] Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975* (Stanford, CA: Stanford University Press, 1982). For an excellent review of various explanations, see chap. 1.

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size different factors, all tend to stress the significance of nonmarket factors.

Researchers following both approaches tend, in explaining Japan's economic performance and comparing it with that of other advanced countries, to assume implicitly that characteristics of a society are more or less fixed and do not change significantly. This static assumption is more evident in the nonmarket approach than in the market approach, and it may help isolate the factors that distinguish the Japanese political economy from those of other advanced industrial countries at any given time. But the assumption of stasis leads analysts to overlook the fact that there have been rapid changes in various aspects of the Japanese political economy, especially after the early 1980s. Thus, it is important to analyze the nature of the change from a longitudinal perspective and to consider its implications for the dynamics of international political economy.

The basic question to be addressed is whether various aspects of the Japanese political economy are losing their particularity and coming to resemble the political economy of Western industrial societies. This question applies to such areas as government-industry relations, business-labor relations, finance-industry relations, intercorporate relations, and consumption and saving behavior, among others.[3] This paper attempts to answer the same question regarding Japanese foreign direct investment (FDI). I have analyzed the change in the nature of Japanese FDI and sought to clarify its causes and its implications for both the Japanese and the other world political economies. There is also an attempt to evaluate the impact of this change upon the Japanese economy.

Anticipating the conclusion, I argue that the pattern of Japanese FDI converged toward the Western style of FDI during the 1980s. Microeconomic explanations based on the concept of market failure have become

[3] In my opinion, particularlity seemed to prevail over generality in the earlier stage of Japanese economic development. However, as the Japanese accumulated wealth and entered the post-catch-up stage, generality began to appear more explicitly than before. For example, the power and size of industry have grown so immense that it has become more difficult for the Japanese government to influence industrial behavior. See "Mighty MITI Loses Its Grip," *New York Times*, July 9, 1989, p. F1, and Daniel Okimoto, *Between MITI and the Market: Japanese Industrial Policy for High Technology* (Stanford, CA: Stanford University Press, 1989). Government-industry relations were affected by the gradually declining power base of the Liberal Democratic Party and the rising power of pressure groups. For a view which contends that Japan's political system has changed its nature and become more pluralistic with labor's participation, see Ikuo Kume, "Changing Relations among the Government, Labor, and Business in Japan after the Oil Crisis," *International Organization* 42 (Autumn 1989), 659–88. In business-labor relations, the lifetime employment system began to erode, and companies found it more difficult than before to seek sacrifices from their younger employees. See "Will Japan Really Change?" *Business Week*, May 12, 1986, p. 46. In finance-industry relations, debt financing has become less important, and big businesses depend more on foreign and domestic equity financing in the 1980s than they once did.

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more pertinent in explaining Japanese FDI than were the macroeconomic explanations of the 1970s. This change reflects a fundamental shift of the Japanese economy from a trade-oriented to a foreign investment–oriented economy, the same pattern followed by Great Britain in the late nineteenth century and by the United States after World War II.

Understandably, most Western research on the Japanese political economy has paid little attention to Japanese FDI because the size of Japanese FDI was not important to Japan's economy until the late 1970s. It was after the rapid economic growth in the 1960s and 1970s and the subsequent accumulation of trade surpluses that the Japanese began to accelerate their FDI. Along with the change in its importance to the economy as a whole came a qualitative change in the nature of FDI.[4] This paper offers an explanation for these changes in attempting to fill the current gap in research on Japanese FDI.

As I have elaborated elsewhere, excessive foreign investments and the subsequent decline of productivity growth rate have been two important aspects of the behavior of global hegemonic powers since the nineteenth century.[5] It is evident that Japan cannot be called a hegemonic power in terms of capability and willingness.[6] Nevertheless, as its relative capability has increased, the importance of Japan has increased as well; and it will continue to do so in the world political economy. Thus, I compare the current Japanese experience in foreign investment with two classic examples—Great Britain before World War I and the United States after World War II. The latter section evaluates the impact of FDI on productivity growth.

The Change in the Pattern of Japanese FDI

The history of Japanese FDI can be divided into two phases according to the change in the size and nature of the investments. The first phase runs from roughly the latter half of the 1960s to the end of the 1970s. In

[4] FDI can be defined as a capital movement involving continuing control by the investor. See Charles P. Kindleberger, *American Business Abroad: Six Lectures on Direct Investment* (New Haven: Yale University Press, 1969), 3. I have not included foreign portfolio investments as a subject of discussion here, with the exception of the issue of *zai-tech* (sophisticated money management). This is because *zai-tech*, a type of portfolio investment, was made by industrial firms.

[5] Yoon, "Foreign Investment and Productivity: The British and American Cases" (Paper presented at the 1986 Annual Meeting of the American Political Science Association, Washington, DC, August 28–31, 1986).

[6] Keohane and Nye defined a hegemonic state as a state "powerful enough to maintain the essential rules governing interstate relations, and willing to do so." Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition* (Boston: Little, Brown, 1977), 44.

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this period Japan adopted an export-oriented strategy, and FDI took only a supplementary position in the Japanese economy. In the second phase, from the early 1980s to the present, not only the relative size, but also the nature, of FDI changed.[7] FDI assumed a much more important role in the Japanese economy, which shifted its emphasis from trade to investment. In this section, I review the development of this change in Japanese FDI and seek to identify its causes and assess its implications for the world political economy.

After the mid-1960s Japan began to have current account surpluses. As a result, gold and foreign exchange reserves increased from $2.0 billion in December 1964 to $15.2 billion in December 1971.[8] The Japanese government began to relax its control on outgoing FDI, which led to a noticeable increase in the amount of FDI from Japan. Except for the periods between 1968 and 1969 and between 1970 and 1971, the *amount* of FDI almost doubled or more than doubled every year in the period from 1967 to 1973.[9]

However, compared with U.S. FDI, the amount and relative importance of Japan's FDI in its economy was very small in the first phase. Whereas the cumulative total of U.S. FDI was $124 billion in 1975, Japanese FDI outstanding in all industries was only about $8.2 billion, which was equivalent to 1.7 percent of the gross national product, as shown in Table 1.[10]

Japanese FDI in the first phase was directed to three main areas, one of which was development of natural resources, mainly in developing countries. After the oil shock of 1973 Japan began to shift its emphasis from the strategy of importing vital resources to the strategy of development and import. Thus, Japanese corporations, with the active encouragement of the Japanese government, expanded investments in the Middle East and Asia. Increasing foreign reserve inflow enabled the Japanese to adopt this strategy.

The second component of Japanese FDI in the first phase consisted of manufacturing investments, especially in low-technology sectors of developing countries in areas such as Asia and Latin America. For example, as shown in Table 2, the total amount of manufacturing investments

[7] The Japanese Economic Planning Agency also considered the years 1980–1981 as the beginning of another stage in the history of Japanese FDI. See Economic Planning Agency, *Nihon Keizai no Genjō: Dorudaka Shūseika no Nihon Keizai* [The current situation of the Japanese economy: The Japanese economy adjusted for the high dollar] (Tokyo: Ōkura-shō Insatsukyoku, 1986), 199–203.

[8] Bank of Japan, *Kokusai Shūshi Tōkei Geppō* [Balance of payments statistics monthly], June 1965, p. 117, and September 1972, p. 120.

[9] Ibid., August 1976, p. 47.

[10] The accumulated FDI from the United States in 1975 is from the U.S. Department of Commerce, *Survey of Current Business*, February 1981, pp. 50–51, Table 7.

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TABLE 1
JAPANESE FDI: PERCENTAGE OF GNP AND AMOUNT[a]

	1965	*1970*	*1975*	*1980*	*1985*	*1988*
Percentage	0.5	0.7	1.7	1.8	3.4	4.0
Amount[b] (billions of U.S. dollars)	0.4	1.5	8.2	19.5	45.0	113.1

[a] Two kinds of statistics are available for calculating Japanese FDI: one from the Ministry of Finance is based on the notification/approval, and the other is based on statistics for balance of payments. In this table, the accumulated FDI from Japan was calculated from Bank of Japan, *Kokusai Shūshi Tōkei Geppō*, June 1969, p. 47; August 1976, p. 47; September 1986, p. 53; December 1987, p. 61; and January 1989, p. 63. Calculation of GNP in dollars is based on International Monetary Fund, *International Financial Statistics*, July 1972, pp. 210–13; January 1978, pp. 204–7; August 1982, pp. 240–43; June 1986, pp. 286–89; and July 1989, pp. 314–16. Except for 1965, application of the exchange rate is based on the average annual par rate/market rate.

[b] Accumulated amounts based on balance of payments.

in developing countries was more than twice that in developed countries in the period of between 1972 and 1980.

The third component was investments in developed countries such as the United States and the European countries, mainly in the areas of commerce, banking, and services. The United States had an especially close trade relationship with Japan and initially imported labor-intensive goods such as textiles, toys, and sundries, and later, high-value goods such as televisions and automobiles. Thus, the Japanese needed to estab-

TABLE 2
COMPONENTS OF JAPANESE FDI[a]
(PERCENT)

rea	*Contents*	*1951–71*[b]	*1972–80*[b]	*1981–84*[b]	*1988*
	Resources	10.3	7.0	2.5	2.9
)eveloped	Manufacturing	9.2	11.4	15.0	16.4
	Other	31.3	26.9	32.6	42.2
	Resources	14.3	14.4	9.9	5.5
)eveloping	Manufacturing	18.2	24.0	12.2	10.4
	Other	16.5	16.2	27.9	22.6
,mount (billions of U.S. dollars)		4.4	32.1	34.9	186.4

[a] The column for cumulative amount in 1988 is calculated from MITI, *News from MITI* NR-366 (89-1 (July 1989), 10. Investments in resources in this column include those in agriculture and forestry, shery and marine, and mining. All the other columns are from Economic Planning Agency, *Sekai Keizai 'akusho: Jizokuteki Seichō eno Kokusai Kyōcho o Motomete* [White paper on the world economy: In search f international cooperation toward a continuous growth] (Tokyo: Ōkura-shō Insatsukyoku, 1985), 191. igures for each period are based on the cumulative approval.

[b] Due to rounding, percentages do not add up to 100.

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lish market networks to take care of inventories, advertising, and after-sales services.[11]

When we narrow our focus to Japanese FDI in the manufacturing sector, we find that it contrasts in several ways with that of other advanced industrial countries.[12] First, as already noted, investments in developing countries were much greater than those in developed countries. Investments in developing countries were mainly in Asia and Latin America, in low-technology, labor-intensive (and declining) industries such as textiles, sundries, metal products, electrical machinery, and chemicals.

Second, the Japanese companies that invested abroad were not necessarily large oligopolistic firms. In this respect Japanese firms differed from firms based in the United States and the countries of Western Europe. According to a study by the Ministry of International Trade and Industry (MITI) in March 1975, sixty-two large firms and forty-five small or medium-size firms engaged in FDI in the textile industry.[13] Almost half of the total number of Japanese FDIs were made by small and medium-size enterprises (those with either a total number of employees of three hundred or fewer or paid-in capital of 100 million yen or less) in 1975.[14]

Third, general trading companies participated actively in FDI, even in manufacturing industries. Ozawa argued that most of the Japanese overseas manufacturing ventures were, by Western standards, still immature in their scale of operation, technological sophistication, and financial capability. General trading companies helped to overcome these handicaps.[15] When there was a potential threat of loss in the export market, it was the trading companies that first brought it to the attention of the manufacturers and helped them begin production abroad. The manufacturing firms looked to the trading companies for knowledge and expertise in international business, financial resources, and local know-how, and in return they usually permitted an equity position for trading companies.[16] Thus, in the first phase a unique industrial network among Japanese firms had an important influence on their FDI behavior.[17]

[11] Terutomo Ozawa, *Multinationalism, Japanese Style* (Princeton: Princeton University Press, 1979), 22.

[12] For a good analysis of Japanese FDI in each region by the mid-1970s, see Sueo Sekiguchi, *Japanese Direct Foreign Investment* (Montclair, NJ: Allanheld, Osmun, 1979), esp. 53–58.

[13] See Sekiguchi (fn. 12), 57, Table 3-4, based on MITI, *Overseas Activities of Japanese Enterprises*, 1976.

[14] Ozawa (fn. 11), 26.

[15] Ibid., 25, 30.

[16] M. Y. Yoshino, "Japanese Foreign Direct Investment," in Isaiah Frank, ed., *The Japanese Economy in International Perspective* (Baltimore, MD: Johns Hopkins University Press, 1975), 262–63.

[17] See Lawrence B. Krause and Sueo Sekiguchi, "Japan and the World Economy," in Patrick and Rosovsky (fn. 1), 392–93, and Sekiguchi (fn. 12), 56–58, 139–43.

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Considering the above factors, it is evident that Japanese FDI at this time differed in several ways from that of the other advanced industrial countries. A few Japanese scholars tried to explain this phenomenon from a theoretical perspective. Kojima and Ozawa, for example, emphasized the particularity of Japanese FDI. They approached the phenomenon from a macroeconomic perspective and explained its particular characteristics in relation to the change in the macroeconomic necessity of the Japanese economy.

In contrasting Japanese FDI with U.S. FDI, Kojima found that Japanese investments aimed mostly at exploiting natural resources in resource-rich countries and low wages in labor-abundant countries. These investments usually led to the increase of exports to Japan or to a third market from host countries. According to Kojima, Japanese FDI supplemented trade and followed the principle of comparative advantage from the macroeconomic perspective. However, U.S. manufacturers invested in highly sophisticated, technology-based products to increase their sales to the market of the host country. This style of investment tended to replace exports from the United States and ran counter to the principle of comparative advantage. Kojima called the Japanese style of FDI a trade-oriented investment and the U.S. style of FDI an anti-trade-oriented investment.[18]

Ozawa argued differently, that these characteristics of Japanese FDI were associated with Japan's industrial transformation from labor-intensive, low-tech, and low-growth sectors to high-tech and high-growth sectors. In the process of structural adjustment, such macroeconomic forces as factor scarcities at home, an uncertain foreign supply of key resources, and a decline in the competitiveness of Japanese labor-intensive goods prompted Japanese firms to invest abroad. Thus, Japanese FDI differed from U.S. FDI, which had been propelled by the growth of the internal capacity of each individual firm.[19]

Kojima, who approached the phenomenon of FDI from a macroeconomic perspective, assumed the rationality of Japanese investment behavior and justified it from a perspective of world welfare. Ozawa also assumed the rationality of Japanese investment behavior in concentrating on low-tech and labor-intensive industries. According to him, technology released from the contracting low-tech sector would be transferred to the less-developed host countries and would increase world welfare.[20]

[18] Kiyoshi Kojima, *Direct Foreign Investment: A Japanese Model of Multinational Business Operations* (New York: Praeger, 1978), esp. chaps. 4, 5, and 6.

[19] Ozawa (fn. 11), 70.

[20] Ibid., 63. However, Japanese investors were often criticized for their reluctance to transfer even lower-grade technologies to host countries because of their fear of a boomerang

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These two explanations emphasized that Japan's FDI was the result of rational behavior on the part of Japanese industry in following macroeconomic necessities; thus, it was essentially unique and different from Western FDI.

Western scholars, however, tended to overlook these differences between Japanese and U.S. FDI. They assumed that theories of FDI could be applied universally to explain even Japanese FDI. The mainstream theoretical explanations in the United States were based on the microeconomic approach, which viewed FDI as resulting from market failure. For instance, Stephen Hymer, Charles Kindleberger, and Richard Caves pointed out in their respective publications that FDI usually occurred in the oligopolistic market. They argued that oligopolistic firms had some advantages over local corporations in that they could compensate for transaction costs or overcome barriers to entry into the host markets.[21] Even Raymond Vernon's product-cycle theory turned our attention to the development of new technology and products at the initial stage of the cycle.[22] Usually large oligopolistic firms generated new technologies and products after all. In this sense, the product-cycle theory also shared the assumption of the market-failure approach.

These theories reflected the characteristics of American multinationals in the 1960s and 1970s, when the United States held the majority of world FDI. American scholars either assumed that these theories could explain Japanese FDI or did not show much interest in this issue because of the small size of Japanese FDI in the 1960s and the 1970s. John E. Roemer, for example, argued that the trade-oriented nature of Japanese investments was just a fortuitous circumstance and that as the Japanese economy matured, the corporate behavior of Japanese firms and market patterns would come to resemble the Western style of FDI.[23] He argued that

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effect. In addition, Japanese investments in low-tech areas were often accompanied by the export of pollution.

[21] Hymer, *The International Operations of National Firms: A Study of Direct Investment* (Cambridge: M.I.T. Press, 1976); Caves, "International Corporations: The Industrial Economics of Foreign Investment," *Economica* 38 (February 1971), 1–27. Kindleberger emphasized the importance of this approach and claimed that most of the other recent explanations were derived from Hymer's thesis. Charles P. Kindleberger, *Multinational Excursions* (Cambridge: M.I.T. Press, 1984), 180.

[22] Vernon, "International Investment and International Trade in the Product Cycle," *Quarterly Journal of Economics* 80 (1966), 190–207.

[23] Roemer, *U.S.-Japanese Competition in International Markets: A Study of the Trade-Investment Cycle in Modern Capitalism*, Research Series No. 22 (Berkeley: Institute of International Studies, University of California, 1975), 206–7, 210. In explaining Japan's international competitiveness, he suggested a four-stage hypothesis, which, I believe, has a high degree of explanatory power from the long-term perspective. For this hypothesis, see pp. 131–41. Unfortunately, Roemer did not explain the mechanism from a theoretical perspective.

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> although the data . . . and the observations about Japanese manufacturing investment drawn from them are consistent with Kojima's hypothesis, these data and observations can be explained by certain fortuitous circumstances which have nothing to do with a more "rational" policy of Japanese investment. Furthermore, it is probable that the pattern will change and that Japan, too, will invest strongly at the "top of the product cycle." The fortuitous circumstances are: (1) Southeast Asia has been Japan's main "sphere of influence," and labor-intensive investment is the natural type of investment to make in that area; (2) the existence of trading companies has facilitated early, small-scale investments in non-competitive industries; (3) a large, unsaturated domestic market made foreign expansion in the advanced sectors less critical during the 1960s. Thus Japanese foreign investment in the 1960s was atypical.[24]

Interestingly enough, the new trends in Japanese FDI in the second phase, after the early 1980s, bore out Roemer's prediction. The particular characteristics of Japanese FDI in the first phase were overwhelmed by the newly emerging Western style of Japanese FDI. What accounts for the change that occurred in the second phase of Japanese FDI? An important factor was that the conservative attitude of the Japanese people toward FDI underwent a rapid change. For example, the Japanese government publicly announced that the coming years would be a period of investment instead of trade: "In a long-term view of the future of the economy, it is inevitable that Japan will take the route from being a major trading power to being a major power in direct investment."[25] Moreover, the Ministry of Finance strongly backed the loan program of the Export-Import Bank of Japan for Japanese investors going abroad.[26] Also, a range of tax incentives has been developed for potential investors. These changes altered the nature of Japanese FDI.

First, reflecting the fundamental changes in attitude and policies toward FDI, the amount of Japanese FDI began to increase rapidly. On the basis of approval, cumulative FDI has increased by five times, from some $36 billion in 1980 to $186.4 billion in 1988.[27] It is noteworthy that this increase occurred at a time when the United States had begun to decrease its share of the world FDI. If this trend continues, Japanese FDI will dis-

[24] Ibid., 176–77.

[25] Economic Planning Agency, *2000 Nen no Nihon: Sekai Keizai, Takyoku Antei o no Dohyō* [Japan in the year 2000: Guideposts to the world economy, multipolar stability] (Tokyo: Ōkura-shō, 1982), 69.

[26] Outstanding loans of this program have increased from 62.4 billion yen in 1977 to 258 billion yen in 1983. See "Japan '85: Getting Round Protectionism by the Direct Route," *Far Eastern Economic Review*, June 13, 1985, p. 83.

[27] MITI, *News from MITI* NR-366 (89-9) (July 1989), 2–3. As shown in Table 1, the cumulative total of Japanese FDI on the basis of balance of payments statistics is smaller and reached $113.1 billion by the end of 1988.

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place that of the United Kingdom to account for the world's second-largest proportion of FDI, following that of the United States.

Second, the most important change was the shift from investments oriented to resources and cheap labor in developing countries to the market-oriented, technology-based investments in industrialized countries such as the United States and those in Western Europe. According to the 1989 edition of the *Economic White Paper*, Japanese FDI by about 1980 was directed mainly toward Asia, to resource-dependent industries and other industries in which Japan was at a comparative disadvantage. In recent years, however, most of Japanese FDI was made in industries of Japan's export competitiveness, such as electrical machinery, general machinery, and transportation equipment in industrialized countries.[28] For example, as shown in Table 3, the relative share of FDI in processing and assembling in North America increased from 8.5 percent in 1975 to 37.6 percent of the total manufacturing investments in 1985. The reverse has occurred with investments in basic industries in Asia; these decreased from 24.3 to 5.2 percent between 1975 and 1985.

This change was accompanied by the increasing importance of large oligopolistic firms in FDI.[29] All major automakers have set up manufacturing operations in the United States by now. Even Toyota, which had been reluctant to produce abroad, followed the lead of Nissan, Honda, and Mitsubishi and began production in the United States. In the steel industry, Nippon Kokan recently invested in and gained control of National Steel. In the high-tech electronics industry, many large companies, including NEC, Sony, and Fujitsu, are producing everything from personal computers to cellular mobile telephones in the United States.

The rapid increase in the share of FDI in machinery, transportation equipment, and electrical industries, as depicted in Table 3, reflects the rising importance of FDI made by high-tech, capital-abundant oligopolistic firms. Most of these investments were made in the United States; Japan's FDI in the U.S. manufacturing industry is expected to grow by 14.2 percent annually until the year 2000, which will lead to a tenfold increase over the level of the early 1980s.[30] Table 4 shows the trend to-

[28] Economic Planning Agency, *Keizai Hakusho 1989: Heisei Keizai no Kadode to Nihon Keizai no Atarashii Chōryū* [Economic white paper 1989: The start of the Heisei economy and the new trend of Japanese economy] (Tokyo: Ōkura-shō Insatsukyoku, 1989), 198–200.

[29] There are no available data for measuring the increasing importance of large firms. However, a rough measure like dollar amounts of FDI flow per case confirms this trend. It has increased from $2.5 million per case in 1976 to $9.6 million per case in 1988 in the electric/electronics industry, from 3.6 to 10.0 for transportation equipment, and from 2.5 to 7.7 for manufacturing as a whole. Calculated from MITI (fn. 27), 9, Table 3, and Keiji Nakatani, "Trends in Japan's Direct Investment Abroad in FY 1986," *EXIM Review* 8 (March 1988), 76–103, at 90, Table 7.

[30] "Japan in America," *Business Week*, July 14, 1986, p. 46.

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TABLE 3
DISTRIBUTION OF JAPANESE FDI IN MANUFACTURING
(PERCENT)

	Region	*1975*	*1980*[a]	*1985*[a]
Processing and Assembling[b]	North America	8.5	12.7	37.6
	Machinery	3.1	1.8	10.3
	Electrical	4.7	9.8	17.1
	Transportation equipment	0.7	1.1	10.2
	Asia	9.3	7.7	11.9
	Other	14.0	14.1	13.9
		(31.8)	(34.4)[c]	(63.4)
Basic[b]	North America	22.3	9.9	10.9
	Asia	24.3	30.7	5.2
	Other	12.2	19.8	11.6
		(58.8)	(60.4)	(27.7)
Other	(All regions)	9.4	5.2	8.8

SOURCE: Economic Planning Agency, *Keizai Hakusho 1986: Kokusaiteki Chōwa o Mezasu Nippon Keizai* [Economic white paper 1986: Japanese economy aiming at international harmony] (Tokyo: Ōkura-shō Insatsukyoku, 1986), 199, 515.

[a] Due to rounding, percentages do not add up to 100.

[b] Processing and assembling industries include industrial machinery, electrical machinery, transportation equipment. Basic industries include food, textiles, wood and wooden products, pulp and paper products, chemicals, iron and steel, and nonferrous metals.

[c] Numbers in this column total 34.5; 34.4 is the total given in the source.

ward increased Japanese FDI in the industrialized West and its decline in developing countries, which confirms the pattern of Japanese FDI becoming more and more oriented to the export market.[31] Thus, Japanese FDI has increasingly come to resemble the Western style of FDI.

Another noticeable change has been the rapid increase in nonmanufacturing investments after 1985, especially in the United States. The most important factor contributing to this change was the increase of investments in finance and insurance, which constituted 40 percent of the annual outflow of nonmanufacturing FDI in 1985 and 1986 and 43 percent in 1987.[32] The flow of FDI in finance and insurance almost doubled annually between 1982 and 1986, and it continued to increase

[31] More than 90% of total sales of Japanese production in North America and Europe was for the local market in 1987. The ratio was as much as 60% in Southeast Asia. See Economic Planning Agency (fn. 28), 202, Table 3-2-10(1).

[32] Ministry of Finance, "Foreign Direct Investment by Industry," as quoted in Onishi Katsuaki, "Kaigai Shinshutsu no Kyuzo de Keizaiwa 'Kūdoka' Shinaika" [No "hollowing-out" of the economy in spite of the rapid foreign expansion?], *Keizai* (May 1989), 48–57, at 49, and Nakatani (fn. 29), 90.

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TABLE 4
REGIONAL DISTRIBUTION OF JAPANESE FDI[a]
(PERCENT)

	North America	*Europe*	*Oceania*	*Latin & S. America*	*Asia*	*Middle East*	*Africa*
1975	27.7	10.1	5.5	11.3	33.5	6.1	5.8
1980	34.0	12.3	9.5	12.5	25.3	3.4	3.0
1985	45.0	15.8	4.3	21.4	11.7	0.4	1.4
1987	46.0	19.7	4.2	14.4	14.6	0.2	0.8

SOURCE: Arranged from Ministry of International Trade and Industry (MITI), *Keizai Kyōryoku no Genjō to Mondaiten, 1985* [The current situation of economic cooperation and problem areas, 1985], March 1986, p. 245; Japan External Trade Organization (JETRO), *Sekai to Nihon no Kaigai Chokusetsu Tōshi* [The world's and Japan's foreign direct investments], 1987, pp. 376–77; 1988, pp. 384–85; 1989, pp. 393–94.

[a] On the basis of approval.

rapidly afterward.[33] This trend reflects the fact that Japanese financial institutions have been following the rapid expansion of Japanese manufacturing firms abroad, which tended to depend exclusively on foreign branches of Japanese banks for financial services.[34] Though the increase in nonmanufacturing investments was a secondary phenomenon caused by the expansion of manufacturing investments, it reveals the increasing internationalization of Japanese finance as well as industry.

The above-mentioned changes were accompanied by a decline in the role of trading companies. Initially, as the foreign market expanded, Japanese manufacturing companies needed to have direct control in pricing and marketing in order to provide the kind of sales engineering and service required for the distribution of sophisticated products.[35] In addition, as a number of host countries began to industrialize and achieve import substitution, Japanese firms were pushed to expand their local production process from limited, small-scale operations, such as assembly, to upstream or downstream operations.[36] Some manufacturing firms also acquired experience in international business and could make greater financial, technical, and managerial commitments. Thus, the role

[33] Nakatani (fn. 29), 90.

[34] See the survey " 'Sihon Yushutsu Koku' ka, Ginkō no Kokusaika oyobi Kyatchi Appu" [Becoming a capital-exporting country: Internationalization of banks and catch-up], *Keizai Kenkyū* 37 (July 1986), 258–75, at 271, Table 18. Data show that there is a consistency in the distribution between manufacturing investments and investments in finance and insurance. See p. 272, Table 19.

[35] James C. Abegglen and George Stalk, Jr., *Kaisha, the Japanese Corporation* (New York: Basic Books, 1985), 246.

[36] A good example is the synthetic fiber industry. See Yoshino (fn. 16), 267. Yoshino argues that this trend began around 1975.

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of trading companies began to weaken, and manufacturing firms began to take the initiative in foreign production.[37] In this way, Japanese manufacturers began to make direct marketing investments themselves and relegated general trading companies to the low-margin commodity area.[38] This is another aspect of vanishing particularity—a weakening of the influence of the intercorporate network on the behavior of Japanese FDI.

All these changes indicate the increasingly Western style of Japanese FDI. What is the cause of this change? First, newly industrializing countries were changing. As they developed their own labor-intensive and low-technology industries—on which Japanese FDI had traditionally focused—the relative importance and profitability of these industries became less significant for Japanese investors, who were thus forced to move to the upscale and/or high-technology areas. Even in the automobile industry, the newly industrializing countries began to occupy the lower end of the market. For this reason, Japanese automobile manufacturers have had to enter into joint ventures with these new challengers or move into upper-market streams and leave their share of the lower-end market to companies such as Hyundai.[39]

Likewise, Japanese steel producers, who once devastated the U.S. steel industry with low-priced exports, have been hard-pressed to lower prices or risk losing business to Brazil or Korea.[40] Similar trends are expected to occur in the semiconductor industry. Moreover, new Japanese FDI in resource development has been steadily declining because of the shift in emphasis from resource-consuming industries to high-tech industries and because of declining domestic economic growth in Japan.[41]

Second, in these high-technology industries, Japanese exporters found themselves facing increasingly severe trade restrictions from industrialized countries. To circumvent these trade barriers, Japanese firms had no alternative but to produce directly in the foreign markets. For example, after the United States imposed an import quota on consumer electronics goods such as color television sets, all major Japanese producers moved to set up U.S. assembly operations. Similarly in the automobile

[37] Ibid., 266–68.

[38] Abegglen and Stalk (fn. 35), 246.

[39] Sato Sadayuki, "Nihon Keizai mo 'Kūdoka' no Osore: Shindankai Mukaeru Nihon Kigyo no Takokuka" [The fear of the hollowing-out of the Japanese economy: Toward a new stage of multinationalization of Japanese business], *Ekonomisto*, February 4, 1986, p. 18. See also "Japan Picks Winners to Hurdle the Fences," *Far Eastern Economic Review*, September 4, 1986, p. 61.

[40] "Will Japan Really Change?" *Business Week*, May 12, 1986, p. 49.

[41] Kiyoshi Kojima, "Japanese-Style Direct Foreign Investment," *Japanese Economic Studies* 14 (Spring 1986), 52–82, at 56.

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industry: major Japanese car companies began to invest in the United States after the U.S. imposed voluntary export restraints on Japanese exports in 1981.[42] And after the United States began to pressure Japan about semiconductor exports, many electronics companies began to invest in the United States.

Basically, then, the shift from a strategy of export to one of FDI was forced by the external situation. The Japanese would probably not have followed the same road if there had been no trade restrictions.[43] According to a study by MITI, the most important motive for FDI in developing countries before 1979 was the low cost of production. However, the most important motive for FDI in developed countries since 1980 has been trade conflict.[44] The rise in the value of the yen, especially after the Plaza Meeting of 1985, also signaled external pressure from Western economies and added momentum to the increase of Japanese FDI.

Finally, what are the implications of this change from the perspective of the domestic as well as the international political economy? The former two hegemonic powers, Great Britain and the United States, adopted a liberal philosophy in domestic and international life, which was indicative of their preponderant capability and industrial competitiveness. The fact that they had no superiors in international competition fostered an attitude of complacency. Also, the adoption of a liberal philosophy necessitated and/or reflected the weakness of the state's power over society, which may, in turn, have allowed the gradual development of social rigidities.[45] In contrast, such nonhegemonic challengers as Ger-

[42] MITI, *Tsūshō Hakusho* [White paper on international trade] (Tokyo: Ōkura-shō Insatsukyoku, 1986), 182–83. See also Robert Reich, "Japan Inc., U.S.A.: If You Can't Beat Them, 'Joint Venture' with Them," *New Republic*, November 26, 1984, p. 20.

[43] See Abegglen and Stalk (fn. 35), 252; Edward J. Lincoln, "Comment," in Thomas A. Pugel and Robert G. Hawkins, eds., *Fragile Interdependence: Economic Issues in U.S.-Japan Trade and Investment* (Lexington, MA: Lexington Books, 1986), 163; Daniel I. Okimoto and Takashi Inoguchi, "Introduction," in their *The Political Economy of Japan*, vol. 2, *The Changing International Context* (Stanford, CA: Stanford University Press, 1988), 8. However, the characteristics of Japanese FDI will not necessarily remain defensive in the future. Once begun, FDI will gain momentum because of the oligopolistic competition among large firms, and the behavior of Japanese FDI will become more offensive.

[44] See MITI (fn. 42), 182.

[45] I have argued elsewhere from a macrohistorical perspective that social and institutional rigidity caused the excessive export of capital from Great Britain before World War I and from the United States in the 1960s and 1970s; see Yoon (fn. 5). Rigidity may be defined as a "resistance to needed change" or a "tendency of excessive risk-averseness." As a society matures, such characteristics as originality, inventiveness, and flexibility—which enabled innovations in productive methods, technology, and managerial skill in the earlier period—tend to disappear. See also Carlo M. Cipolla's discussion on "Conservative Mentality," in Cipolla, ed., *The Economic Decline of Empire* (London: Methuen, 1970), 7–11, and Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982). For the relationship between state and society, see Peter J. Katzenstein, "International Relations and Domestic Structure: Foreign Economic Policies of Advanced Industrial States," *International Organi-*

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many in the nineteenth century and Japan after World War II adopted more mercantile strategies in order to compete with their superiors. The adoption of a mercantile strategy also necessitated and/or reflected the strength of the state's power over society. Usually, there were two possibilities for these latecomer countries of the strong state. Either inefficiency was artificially created by governmental policies, as is often observed in many unsuccessful cases of Third World development, or inefficiency was artificially controlled by governmental policies, as in the case of Japan. In Japan, the development of institutional inefficiency and complacency was more or less delayed. Rather ironically, the Japanese mind and institutions, having been strongly influenced by past success, tend toward rigidity, which manifests itself in an unwillingness to depart from self-restraints or abstinence in economic life.

Japanese social and institutional structures emphasized this notion of self-restraints. For instance, industrial policies provided greater incentives for exports than for imports, and the structure of the financial system favored saving and exporting rather than consuming and importing. The government also encouraged saving rather than domestic consumption, by offering tax and other incentives. Public investment in domestic infrastructure such as transportation, other public facilities, and housing has been kept to a minimum, and the Japanese government has been very cautious about increasing government spending.[46] Private consumers also became unwilling to spend, even when they had enough to spend, which led to oversaving in the private sector. More than three decades of this institutional tradition have deeply affected almost every aspect of private life.

The external situation, by contrast, has been changing rapidly. For instance, the speed of change in the power distribution on the international scene has been accelerating. Whereas the Pax Britannica lasted almost a century, the Pax Americana is said to have lasted less than half that. It took the Japanese only two or three decades to rise from the almost total destruction of their economy in World War II to become the second wealthiest market economy in the world.[47]

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zation 30 (Winter 1976), and Stephen D. Krasner, *Defending the National Interest* (Princeton: Princeton University Press, 1978).

[46] From 1978 to 1984 fiscal spending, as measured by the structural (high employment) budget deficit, was tightened from −4.9% of GNP to −1.3%. See C. Fred Bergsten and William R. Cline, *The United States-Japan Economic Problem* (Washington, DC: Institute of International Economics, 1985), 29–30.

[47] This tendency of declining periodicity of major powers in the history of the international system was noticed by Charles F. Doran, "War and Power Dynamics: Economic Underpinnings," *International Studies Quarterly* 27 (December 1983), 419–41. According to Doran, this phenomenon can be explained by the nature of technology and its impact on industrial and commercial change. See esp. pp. 434–35.

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There thus arose an imbalance between the rigidity of Japanese institutions and a rapidly changing new reality in the distribution of wealth in the world political economy. The Japanese have not been ready and willing to adjust their life-style to the new situation. Rather, they have clung to the mercantilist way of life that made them a successful challenger.[48] Unfortunately, in an interdependent world, the imbalance could not remain as a purely Japanese problem. It was bound to have an impact abroad later because it created problems in the flow of goods and capital in the international economic system. In the early 1970s the Japanese economy began to be regarded as a destabilizing factor in the world economy, and other economic forces started to bring pressure upon Japan to adjust itself to the new world economy. By way of response, the Japanese government found no alternative but to encourage foreign direct and portfolio investments and to give back what Japan earned through its exports. The result has been a huge increase in the amount of foreign investments in the 1980s, a trend that will continue in the near future.[49] In other words, the very success of the trade-oriented strategy brought about its own demise and the shift to the investment-oriented strategy.

What are the implications of being a nonhegemonic power in the overall process of transition from a trade-oriented economy to an investment-oriented economy? As a nonhegemonic power, Japan has had a target: the United States. Having a target on which to focus, the Japanese staved off complacency and inefficiency in the operation of institutional mechanisms for a while; instead, they enjoyed the advantage of the "economic backwardness" of latecomers.[50] But the very fact that Japan was a nonhegemonic power limited its range of strategic choices. Similar changes from a trade-oriented economy to an investment-oriented economy in the British and American cases were caused by the development of complacency and the inefficiency in institutional mechanisms. In con-

[48] The same analogy can be applied to the case of the United States. There is an imbalance between the American mind and institutions and the country's wealth. Caught by the inertia of the past, the American government and people keep consuming more than they can afford.

[49] There is no clear evidence that the recent boom in domestic demands in 1988 and 1989 was caused by institutional reforms. Rather, the boom seems to be a temporary phenomenon resulting from the appreciation of the yen and cyclical factors. See "The Consumption Boom in Japan," *Tokai Monthly Economic Letter* 125 (June 1989), as quoted in *Japan Update* (Autumn 1989), 9–14.

[50] I use this term keeping Gerschenkron's usage in mind. Such distinctive characteristics of industrial latecomers as the speed of industrialization, productive and organizational structure of industry, and etatist ideologies can be understood as the result of creative response to or application of the past route of industrial revolution of the forerunner countries. See Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge: Harvard University Press, 1962), 6–11, 22–29.

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trast, this transition in Japan was initiated by external forces that would not tolerate the imbalance between the rigidity of Japanese institutions and the new reality of world political economy.

After the Change: The Consequence of Increasing FDI

As seen in the cases of Great Britain and the United States, foreign investments negatively affect growth in domestic productivity.[51] Industrial managers are able to capture profits by shifting production abroad in the short term, but the diversion of capital from what is traditionally the most productive export sector inevitably leads to an increase in unemployment, the shift of unemployed labor to lower-productivity growth sectors, slower or no accumulation of production experience and technology, less enthusiastic pursuit of innovation, and more financially oriented industrial management.[52] The mirror image of this mechanism is the expansion of the service sector and the phenomenon of deindustrialization, that is, the depression of productivity growth at the aggregate level. Contrary to conventional wisdom, the short-term profit of an individual firm is very different from the long-term productivity growth of the aggregate economy.

Is there any evidence to show that this mechanism is working and will continue to work in Japan? Although it is too early to analyze the full effect of FDI on productivity growth, evidence is already accumulating that supports the hypothesis. In this section, I focus on this evidence.

The era of FDI has just begun in Japan, which is still in the midst of transition from a trade-oriented to an investment-oriented economy. According to the Economic Planning Agency, the ratio of the overseas production of manufacturing industries to their total output, which was 3.4 percent in 1982 and around 5 percent in 1986, is expected to increase to 20 percent by the year 2000.[53] FDI is thus affecting the evolution of the

[51] For examples of parallel arguments, see J. M. Keynes, "Foreign Investment and National Advantage," *The Nation and the Athenaeum* 35 (August 9, 1924), 584–87; Marvin Frankel, "Home versus Foreign Investment: A Case against Capital Export," *Kyklos* 18 (March 1965), 411–33; Robert Gilpin, *U.S. Power and the Multinational Corporation* (New York: Basic Books, 1975); Sidney Pollard, "Capital Exports, 1870–1914: Harmful or Beneficial?" *Economic History Review* 38 (November 1985), 489–514; and William P. Kennedy, *Industrial Structure: Capital Markets and the Origins of British Economic Decline* (Cambridge: Cambridge University Press, 1987).

[52] The trend toward financially oriented management was encouraged even more by foreign portfolio investments since the 1980s. It is clear, however, that the procedure of FDI itself brings its own mechanism to bear on this trend, as we can see from the American experience of offshore production in electronics and other industries in the 1960s and 1970s. Evidence suggests that a similar mechanism is at work in the case of Japanese FDI.

[53] "Employment Opportunities Follow Production Bases out of Japan," *Japan Economic Journal*, July 19, 1986, p. 17.

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entire Japanese economy, with the result that increasing FDI is displacing exports. A good example is the electronics industry. In the 1970s the export of Japanese color television sets increased rapidly, but, then, from July 1977 to June 1980 the United States imposed export restraints on Japan. In order to avoid these restraints, Japanese manufacturers of color televisions began to transfer their production to the United States. While Japanese production in the United States rose, exports from Japan began to decline, and in 1978 Japanese production in the United States caught up with exports. This negative relation between exports and foreign production continued until recently. Another typical example is the case of videotape recorder (VTR). The exports of VTRs to countries of the EC began to decline in the same year that Japanese manufacturers began production in those countries.[54]

In the machinery industry, the share of the foreign production to the total supply for foreign markets is expected to be about 33 percent in 1990, and this is expected to increase to 46 percent by 2000. The share of exports, according to the report by a Japanese machine industry organization, is expected to decrease by the same rate.[55]

The same thing is happening in the automobile industry. Japanese companies have also been pressured by host governments to raise the local content ratio in the production of automobiles. The negative relation between FDI and exports in the automobile and parts industries became more evident after 1986.[56] A private research institute estimated that the increase in production of motor vehicles by the Japanese companies in the United States would reduce Japan's 1992 trade surplus with the U.S. by $7.3 billion from 1988 levels.[57] Furthermore, there has been an increase in reverse imports from the foreign affiliates of Japanese multinationals to the home country. For example, in FY 1987 the total value of reverse imports was estimated at $9.4 billion, which accounted for 11.5 percent of Japan's total manufactured imports.[58]

The displacement of exports by FDI has led to an increase in unemployment in the traditionally most efficient industries. Although the boom in capital investment in 1989 may conceal the problem for the time being, the problem clearly exists, and it is of a structural nature in two respects.

[54] See the two graphs that show the negative relationship between local production and exports (color TV in the United States and VTR in the EC market) in MITI (fn. 42), 193.

[55] Japan External Trade Organization (JETRO), *Sekai to Nihon no Kaigai Chokusetsu Tōshi* [The world's and Japan's foreign direct investments], 1988, 41.

[56] Economic Planning Agency (fn. 28), 208–10, 578: see esp. Table 3-2-12.

[57] Fuji Research Institute Corporation, *Fuji Economic Review* (July–August 1989), 15.

[58] MITI, International Business Affairs Division, "The 18th Survey on Japanese Business Activity Abroad," April 27, 1989, p. 3.

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First, if all the unemployed people from the FDI-intensive industries could be employed in the area of higher-productivity growth industries, we would not have to worry about the hollowing-out phenomenon. However, this does not appear to have happened. Rather, the available evidence shows that most unemployed people were absorbed into lower-productivity growth sectors. For instance, in the years from 1985 to 1987, when FDI was most intensive, the number of people employed in the manufacturing sector decreased by 280,000, while the number in the service sector increased by 810,000 (those in retail and restaurant businesses increased by 480,000).[59] The rates of productivity growth in services, distribution, agriculture, and the construction sectors are usually lower than those in the manufacturing industries. The shift of workers from a manufacturing to a service sector or from a higher-to a lower-growth manufacturing sector will depress the productivity growth of Japan at the aggregate level.

Second, the negative effect of the hollowing-out of export industries on productivity growth will be greater in Japan than it was in the United States in recent decades. Compared with the pattern of economic development in the United States, Japanese development has been more unbalanced and has depended more on the development of a few particular export industries. For instance, even though U.S. manufacturing industries were hollowed out by FDI, the United States still leads in many sectors such as basic research, software, and space development. Japan, however, has been almost totally dependent on a few major manufacturing industries.[60] As a consequence, the hollowing-out of these export industries will more deeply affect productivity growth at the aggregate level in Japan than it did in the United States.

Furthermore, increasing FDI will negatively affect productivity growth through the destruction of the traditionally efficient domestic structure of production, an important source of Japanese competitiveness. A good example was the reluctance of Toyota to invest abroad. Toyota's efficient production system in Toyota City consisted of the "kanban, or just-in-time method, a good manufacturing location, amicable industrial relations and cooperative auto part suppliers."[61] FDI weakens these positive factors and relationships at home. This was why Toyota, Japan's largest automaker, was the last major foreign investor from the Japanese auto-

[59] Ministry of Finance, *Bureau of International Finance Yearbook 1988* (Tokyo: Ōkura-shō, 1988), 91.

[60] "Danger of Industrial Hollowing-Out," *Japan Economic Journal*, October 18, 1986, p. 6. See also "Producing Abroad Faces Problem," *Japan Economic Journal*, December 27, 1986, p. 6.

[61] "Toyota's Unique Method of Production Faces Real Test in North America," *Japan Economic Journal*, December 21, 1985, p. 18.

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mobile industry. Now that the production base has been transferred, advantages of scale and reliable, cost-effective relationships with parts suppliers will no longer be available at home as they had been before.

Overseas production also resulted in fewer orders for parts suppliers. Thus, some parts manufacturers followed the main producers and moved abroad, but the number of these firms was small because most of them lacked the financial capability to make the move. According to a local financial institution, of the ninety subcontractors of the Hiroshima-based Mazda Motor Corporation, only about ten companies could begin overseas production by early 1986.[62] Those suppliers that did not have enough financial power could not move out and had either to reorient their product to the remaining domestic market or to change their product line. This process inevitably leads to inefficiency and higher adjustment costs for the entire economy. In addition, the firing of workers in subcontractor companies and related industries results in the decline of company loyalty, deterioration in the quality of work of the remaining workers, and the weakening of "lifetime employment," one of the key factors of the "Japanese management style." The continuously increasing ratio of the outsourcing of parts and materials from offshore suppliers to the domestic supply will further aggravate this problem.[63]

Investment overseas is a drain on total Japanese investments, to the disadvantage of the development of the domestic economy.[64] In such FDI-intensive industries as the automobile and parts industries, only 8 percent of twenty-five companies that planned to invest abroad felt that domestic investments in plants and equipment were more important than foreign investments in plants and equipment. Twelve percent felt that foreign investments were a little more important than domestic investments, whereas 48 percent regarded them as just as important as domestic investments. Thirty-two percent perceived no significant difference between the two.[65] In addition, we can find a striking contrast in the patterns of investment between the earlier period of high growth with small FDI and the later period of low growth with large FDI. For instance, pri-

[62] These ten companies are known to have annual sales of 20–40 billion yen each. See "Exporters Attempt New Businesses, Takeovers, to Combat High Yen," *Japan Economic Journal*, May 24, 1986, p. 1.

[63] For the increasing ratio of outsourcing, see Economic Planning Agency (fn. 28), 215. It was reported that the unemployment rate in Japan had risen to 3% in January 1987, the highest level since monthly reporting began in 1953. See "Mounting Conflict over Trade Looms for U.S. and Japan," *New York Times*, March 9, 1987, p. D4.

[64] Abegglen and Stalk (fn. 35), 257.

[65] Economic Planning Agency, Bureau of Analysis, *Kokusaiteki Senryaku o Susumeru Kigyō Kōdō* [Business behavior pursuing international strategy] (Tokyo: Keizai Kikaku-cho, 1987), 281–82.

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vate investments in plants and equipment increased by an average of 14.4 percent annually during the time of high growth between 1952 and 1973, but the annual growth slowed down to 3.3 percent between 1974 and 1987 (or 7.3 percent between 1980 and 1987).[66] The capital investment boom in 1989 is comforting for the Japanese, but it may not last long.[67] Also the ratio of gross private capital formation to GNP decreased from 35 percent in 1970 to 32 percent in 1980 and 28 percent in 1985, while the ratio of the (accumulated) FDI to GNP increased from 0.7 percent in 1970 to 1.8 percent in 1980 and 4.0 percent in 1988.[68]

The more fundamental reason for a negative effect of FDI on productivity growth is that FDI will lead to the loss of production experience. Accumulation of production experience has been the core of Japan's long-term industrial strategy, which has emphasized utilizing the production experience and technology of lower-level and lower-value-added products to develop higher-level and higher-value-added products. This issue needs to be examined in more detail.

When people, including many corporate managers, worried about the hollowing-out effect, a typical response from the other end of the spectrum was the division-of-labor argument. For instance, about four-fifths of Japan's sixty-three major corporate heads said that there would be a hollowing-out of the manufacturing industry as a result of the shift to overseas production. They expected this hollowing-out to occur especially in the automobile and electronics industries, the two most important industries in Japan.[69] However, a Japanese industrial manager's comment is reminiscent of the arguments made in the 1960s and 1970s by some American managers and economists who justified FDI as a way of doing "brain work" at home and production abroad: "Japan will certainly see a hollowing out in production. But it is necessary to carry out research and development, develop prototype products and establish mass-production know-how in Japan."[70]

[66] The annual growth rate for the period 1952–1973 is from Hugh Patrick and Henry Rosovsky, "Japan's Economic Performance: An Overview," in Patrick and Rosovsky (fn. 1), 17. The rate between 1974 and 1987 was calculated from Economic Planning Agency, *Keizai Hakusho 1988: Naijugata Seichō no Jizoku to Kokusai Shakai e no Kōken* [Economic white paper 1988: Continuing the domestic demand-oriented growth and contributing to the international society] (Tokyo: Ōkura-shō Insatsukyoku, 1988), 440.

[67] See *Economist*, February 10, 1990, p. 63; *Wall Street Journal*, February 15, 1990, p. 1.

[68] The calculation is based on International Monetary Fund, *International Financial Statistics* (July 1972), 210–13; (January 1978), 204–7; (August 1982), 240–43; (June 1986), 286–89. (Application of the exchange rate is based on the average annual par rate/market rate, except for 1965.) See Table 1.

[69] "Nihon Keizai Shimbun Survey: Corporate Heads See Hollowing-Out of Industry Due to Shift Overseas," *Japan Economic Journal*, June 7, 1986, p. 1.

[70] See "Hitachi Chemical to Keep Research at Home, Shift Production Overseas," *Japan Economic Journal*, October 18, 1986, p. 21.

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Nevertheless, a more important factor than brain work is the production experience that raises the overall level of skills in a population and leads to productivity growth.[71] Japanese producers in the 1960s and 1970s could develop the capacity to take advantage of new and innovative ideas in making competitive goods by keeping production experience at home. However, with increasing FDI, the Japanese will voluntarily export or eventually be forced to export the production experience, and their concentration on research and development (R & D) and the development of new technologies will thus not automatically lead to the efficient production of competitive goods. This was the case of FDI-intensive industries like the consumer electronics and machine-tool industries of the United States in the 1960s and 1970s.

The 1989 edition of the *Economic White Paper* also supports the division-of-labor argument. It recommends developing high-level technologies, shifting to higher-value-added products, and keeping the production center of these products at home to prevent the hollowing-out effect of FDI. The *Economic White Paper* uses the dynamic random access memory (DRAM) chip industry as an example of shifting to a higher-level industry to avoid hollowing-out effects.[72] However, the case of the same DRAM chip industry can be used to support a counterargument.

The comparison of U.S. and Japanese industrial strategies in electronics during the 1960s and 1970s will make the issue clearer. Most American observers at the time thought that the Japanese might be able to occupy the lower end of the business but would not be able to develop the products that would threaten the major components of the product range. Contrary to this expectation, Japanese industrialists targeted the weak spots of competitors first and then used the accumulated production experience in this lower end of the market to attack the higher end later.[73] A good example is the series of product developments of transistor radios, televisions, VTRs, semiconductors, robots, and even high-definition color televisions in recent years.

The major reason for this Japanese success lay in a long-term market and production strategy that emphasized utilizing intraindustry linkages. This strategy was founded on a firm commitment to capital investment at home to upgrade technology and production experience and capabilities. The upgraded technology and the accumulated production experience and capabilities in the lower-level electronics goods led to the

[71] Reich (fn. 42), 21.
[72] Economic Planning Agency (fn. 28), 124–26.
[73] I. C. Magaziner and T. M. Hout, *Japanese Industrial Policy* (Berkeley: University of California Press, 1980), 16.

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successful development of higher-level and higher-value-added electronics goods in the later period. For instance, the accumulated production experience and upgraded technology in color television set production proved to be a basis for the success in VTR production, and the success in consumer electronics was a driving force behind the success in the DRAM memory and other semiconductor industries.

The U.S. approach was different. At the time the Japanese color television and semiconductor industries were emphasizing domestic capital investment as a way of enhancing competitiveness and therefore automated their production facilities, American industrialists in the electronics industry depended instead on the offshore production strategy.[74] This strategy locked U.S. companies into the existing state-of-the-art technology and eliminated further need to retool and automate.[75] A study shows that

> Japanese television equipment manufacturers responded to the recession [of 1974–1975] by retooling and automating production possibilities. The U.S. industry's reaction was to cut costs by moving offshore to low-wage economies and locking into then-current designs and production techniques, and to release R and D personnel as a further cost-reduction measure.[76]

In this sense, FDI for U.S. industrialists has become a disincentive for domestic automation.[77] But automation of production facilities in Japan led to the improvement of productivity, product quality, and competitiveness. This was the main reason for their victory over American products in consumer electronics and DRAM chips.[78] For example, the average number of hours required to assemble a twenty-inch color television set in 1977 was about 1.5 in Japan, 3.5 in the United States, and 5.8 in the

[74] Jack Baranson, *The Japanese Challenge to U.S. Industry* (Lexington, MA: Lexington Books, 1981), 100–102, 129–30; Daniel I. Okimoto, Takuo Sugano, and Franklin B. Weinstein, eds., *Competitive Edge: The Semiconductor Industry in the U.S. and Japan* (Stanford, CA: Stanford University Press, 1984), 62–64; James E. Millstein, "Decline in an Expanding Industry: Japanese Competition in Color Television," in John Zysman and Laura Tyson, eds., *American Industry in International Competition* (Ithaca, NY: Cornell University Press, 1984), 112, 114–17, 120–21, 136–38.

[75] Baranson (fn. 74), 101. See also Millstein (fn. 74), 106–7.

[76] World Developing Industry and Technology, Inc., "Sources of Competitiveness in the Japanese Color Television and Tape Recorder Industry," a study for the U.S. Department of Labor (October 1978), 21, as quoted by Millstein (fn. 74), 127.

[77] Baranson (fn. 74), 101. See also Millstein (fn. 74), 115, and Okimoto, Sugano, and Weinstein (fn. 74), 64.

[78] Both manufacturers and purchasers of semiconductors agreed that during the mid- to late 1970s, quality levels delivered by Japanese firms were superior to those delivered by U.S. firms. See U.S. Congress, Office of Technology Assessment, *International Competition in Electronics* (Washington, DC: Government Printing Office, 1983), 230. For a quality test of Japanese and American chips by Richard W. Anderson of Hewlett-Packard, see "Japan Makes Them Better," *Economist*, April 26, 1980, p. 55.

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United Kingdom.[79] Also, according to a survey of nearly 200,000 owners of nineteen-inch color television sets sold during the period 1975–1979, nine of the fifteen brands—all the Japanese makers—were given reliability ratings of "better than average," whereas of the American brands, one was rated "average" and five others "worse than average."[80]

If the Japanese industry had depended as heavily on FDI as had the U.S. consumer electronics and chip industries, it would not have achieved its present level of competitiveness and advanced technologies. In short, the transfer of production of lower-level products abroad leads to the loss of grounds for the development of higher-level products and breaks the intraindustry linkage. The division-of-labor argument contradicts the core of this long-term strategy. The assertion that hollowing-out can be prevented by controlling certain industries or parts of the production process at home argues in favor of following the past experience of the U.S. consumer electronics and chip industries. Some may say that Japanese FDI is different from American FDI because it has evolved under conditions of careful consideration of domestic production and supplemented domestic investments. The recommendation of the *Economic White Paper* that the production center of high-valued products be maintained in Japan is also based on this assumption. But it may have been possible to maintain this supplementary relationship during the first phase of trade-oriented economy because FDI was not yet important to the economy as a whole at that time. The relationship will not necessarily be as easily maintained during the new period of massive and competitive FDI. Once oligopolistic competition in the FDI arena is unleashed so that firms may realize higher profits, it will be extremely difficult to control the flow of FDI by determining which industries should venture abroad and which should remain at home.[81] The Japanese cannot successfully pursue FDI and another, conflicting goal at the same time: the division of labor regarding capital investment among countries operates according to its own logic.

If we briefly expand our scope and incorporate the effect of foreign portfolio investments into our discussion, the picture becomes clearer.[82]

[79] Magaziner and Hout (fn. 73), 26–27.

[80] "19 Inch Color TVs," *Consumer Reports* (January 1981), 34.

[81] Knickerbocker emphasized the dynamic aspect of oligopolistic competition leading to foreign direct investments instead of focusing on the static aspect, as did most oligopoly explanations. See F. T. Knickerbocker, *Oligopolistic Reaction and Multinational Enterprise* (Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1973), esp. chaps. 2 and 3.

[82] Compared with the British and American experiences, the Japanese case shows an important difference in foreign investment behavior. In the British case, foreign portfolio investments by financiers were predominant. In the American case, FDI by industrialists was predominant. In the Japanese case, however, foreign portfolio investments were still predominant in the late 1980s, and an important portion was being made by industrialists. For in-

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For instance, the existence of easy income sources abroad diverted industrialists' resources and energy from their main line of production. In 1985 more than half of Japan's purchases of foreign bonds came from companies investing their profits.[83] According to a survey of major firms by Mitsubishi Bank, the companies' operational profit based on production activity increased only 2.6 times during the past decade, whereas their pretax profits, which also included financial account earnings, rose by a factor of 5.6.[84] The survey estimated that funds diverted for *zai-tech* (sophisticated money management) purposes by 1985 totaled 10–12 trillion yen, of which 4 trillion yen was added during 1985 alone.[85] Table 5 indicates (1) the profits from nonproductive activities for the five companies that marked the highest profits from *zai-tech* in 1986 and (2) the relationship of those profits, expressed as a percentage, to the operational profits (from mainline production).

For many firms, financial revenues became more important than revenues from mainline production. These Japanese firms regarded *zai-tech* as a key profit base and set up specialized financial subsidiaries. However, this kind of financial speculation usually depresses entrepreneurship in the top management of many companies and brings a loss to the national economy by diverting a considerable amount of money from investment in physical assets and R & D, the most important factors of productivity growth. Even those industrial managers who were involved in *zai-tech* admitted the negative effect of this speculative fund management. For instance, the president of Olympus Optical Company origi-

TABLE 5
PROFITS FROM NONPRODUCTIVE ACTIVITIES

	Amount of Profit (billions of yen)	*Nonproductive Profits as Percentage of Mainline Production Profits*
1. Toyota	159	32.6
2. Nissan	127	107.1
3. Matsushita	115	64.6
4. Mitsubishi	46	58.3
5. Sony	39	111.7

SOURCE: Wakō Kezai Kenkyūsho, *Shoken Tōshi* [Stock investment] (July 1987), 36.

stance, in 1982, 34% of the total investment in foreign securities was accomplished by private nonfinancial corporations. See Economic Planning Agency, *Keizai Hakusho 1986: Kokusaiteki Chōwa o Mezasu Nippon Keizai* [Economic white paper 1989: Japanese economy aiming at international harmony] (Tokyo: Ōkura-shō Insatsukyoku, 1986), 565. This is a new phenomenon in the history of foreign investments, one that has not yet attracted much attention.

[83] See "Japan's Foreign Investment: Home Is Where the Hurt Is," *Economist*, November 9, 1985, p. 94.

[84] "'Zai-tech' Boom," *Japan Economic Journal*, March 29, 1986, p. 6.

[85] Ibid.

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nally thought that finance-oriented management tended to discourage efforts to produce high-quality products. However, financial profits of his firm accounted for about 37 percent of recurring pretax profits in the period from November 1985 to October 1986.[86] Sixty-four percent of the 776 companies surveyed by the Tokyo Chamber of Commerce and Industry felt that *zai-tech* was an undesirable option as far as ordinary corporate activities were concerned.[87]

The case of Tateho Chemical Industries Company was typical of how some Japanese industrial firms, instead of trying to maintain their competitiveness in mainline production, became heavily involved in financial speculation, which eventually proved disastrous.[88] Though the intensity of the *zai-tech* boom has diminished somewhat since the stock market crash of October 1987 and the recent expansion of domestic demand, the tendency of industrial companies to depend on financial speculation will not quickly disappear.

Rapidly expanding foreign direct (and portfolio) investments will bring handsome profits in the immediate future. These net foreign earnings will increase and continue to make a great contribution to Japan's balance of payments in the future, obviating the need for trade surpluses.[89] The economy, however, will be increasingly dominated by financial services. A recent report predicted that the boom in the service sector would create 10 million new jobs over the next fifteen years and that the manufacturing sector would lose 2.6 million jobs.[90] If this trend continues, the Japanese economy will gradually become a rentier economy, as did such predecessors as Great Britain before 1914 and the United States since the 1970s. More and more talented university graduates in Japan are applying for jobs in the financial rather than the engineering sector, just as such graduates have flocked to Wall Street in the United States.

Beyond FDI

Though not yet a hegemonic power, Japan has entered upon the status of a quasi hegemon in economic dimension. As such, the path of its economy has begun to mark a trajectory very similar to that of two earlier

[86] "Companies Increasingly Turn to 'Zaitech' to Combat Profit Fall," *Japan Economic Journal*, June 6, 1987.

[87] *Japan Times*, February 5, 1988.

[88] *Wall Street Journal*, September 28, 1987, p. 25, and *Japan Economic Journal*, September 19, 1987, p. 6.

[89] Profits from investments abroad are projected to be $400 billion by 1990. See "Setting Sun? Japan Inc.'s Rise Holds the Seeds of Its Fall," *Washington Post*, June 22, 1986, p. C1.

[90] *Business Week* (fn. 40), p. 58.

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hegemons, Great Britain in the late nineteenth century and the United States after World War II. What lessons can Japan learn from their experiences, and what should be the direction of change? In answering this question, I want to remind the reader of the comment of an observer at the beginning of this century. Arguing that "mal-distribution of consuming power which prevents the absorption of commodities and capital within the country" was the cause of foreign investments, J. A. Hobson asserted that "the struggle for markets, the greater eagerness of producers to sell than of consumers to buy, is the crowning proof of a false economy of distribution. Imperialism is the fruit of this false economy; 'social reform' is its remedy."[91]

Over eighty years later, Robert Gilpin borrowed Marxist language in the following statement: "Unwilling to make the needed domestic reforms, Japanese capitalism therefore required a 'colony' to rid itself of these financial surpluses. The Japanese found this 'vent for surplus' in an America experimenting with Reaganomics."[92]

Putting aside the question of whether these two scholars' theoretical perspectives have more relevance than those of economists in explaining the cause and effect of Japanese FDI, it is clear that there exists a parallel between the circumstances described by these comments and the current Japanese situation. This parallel is readily apparent in the ironic imbalance between the standard of living of the Japanese and the country's huge accumulation of capital, as I have shown. This is why stimulating domestic demand and investing in the domestic infrastructure through institutional reforms is a better strategy than that of FDI. Stimulation of domestic demands will improve the domestic standard of living (which is, after all, the ultimate goal of economic activities), and investments in the infrastructure will lead to further productivity growth in the future. By contrast, continuing FDI, as neoclassical economic analyses show, will exacerbate the unequal income distribution between labor and capital.

What will happen if there is no change? An article in the *Washington Post*, headlined "Setting Sun? Japan Inc.'s Rise Holds the Seeds of Its Fall," concludes as follows:

> But if its economy is increasingly dominated by financial services, that could subvert the very basis of Japan's industrial success. . . . Unless there are fundamental changes in the nation's economic structure, Japan will be hard pressed to avoid the mistakes that have led to the decline of other great nations.[93]

[91] Hobson, *Imperialism* (Ann Arbor: Ann Arbor Paperbacks, University of Michigan Press, 1983), 85, 88.

[92] Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987), 330.

[93] "Setting Sun?" (fn. 89).

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PRIDE OF PLACE
The Origins of German Hegemony

By BRUCE BUENO DE MESQUITA*

THEORIES of power-transition, or hegemonic, war assume that system-transforming wars must be large, especially costly conflicts between adversaries who hold different views of how the international system should be run. In this essay, using game theory and a detailed historical case analysis, I shall offer an existence proof that system-transforming wars can be small and that the rivals need not disagree over the functioning of the international system: a small event—the Seven Weeks' War of 1866—fundamentally changed the international order by providing the foundation for German hegemony on the European continent.

To demonstrate the argument, I begin with the conditions stipulated by hegemonic war/power-transition theorists as necessary for a system-transforming war. After presenting a game-theoretic model of international affairs, including war, I identify the conditions that are necessary and sufficient for war in this game. Having developed the complementarity between the game theory model and theories of hegemony, I show that the push toward German hegemony following the Seven Weeks' War conforms to the expectations of that model. Yet, the Seven Weeks' War has been overlooked by theorists of hegemonic war who conflate the consequences of system-transforming wars with the causes and proximate conditions of these wars.

Hegemonic War and the Status Quo

Theories of hegemonic war can be traced back to Thucydides, Mackinder, and Carr; in their modern manifestations and current debate, they are clearly rooted in the research of Organski, Kugler, Gilpin, and Kennedy, among others. The essence of the key variants of the theory is that differential rates of growth lead some nations to rise in power and others to fall. When the dominant state in an international system is

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being surpassed in power by a rival that is *dissatisfied* with the international order—the prevailing international status quo—the risk of hegemonic war is great. Such power-transition wars culminate in a restructuring of the international system around the leadership of the newly emergent hegemon.[1]

Questions of who fights in hegemonic wars and the reasons such wars are fought are at the heart of theories and historical evaluations of relations among competing great powers. Organski and Kugler, Gilpin, and Kennedy offer remarkably similar answers to these questions. Organski and Kugler assert that power-transition or hegemonic wars arise because great powers "desire to redraft the rules by which relations among nations work."[2] Gilpin says of such disputes that

> the war determines who will govern the international system and whose interests will be primarily served by the new international order. The war leads to a redistribution of territory among the states in the system, a new set of rules of the system, a revised international division of labor, etc.[3]

Organski and Kugler maintain that the aggressor in a power-transition war "will come from a small group of dissatisfied strong countries" and that "it is a general dissatisfaction with its position in the system, and a desire to redraft the rules by which relations among nations work, that move a country to begin a major war."[4] In a similar vein, Gilpin argues that "the fundamental issue at stake is the nature and governance of the system":

> The disequilibrium in the international system is due to increasing disjuncture between the existing governance of the system and the redistribution of power in the system. . . . From the perspective of dominant powers, the costs of maintaining the international status quo have increased. . . . From the perspective of rising powers, the perceived costs of changing the international system have declined relative to the potential benefits of doing so. . . . Thus, in accordance with the law of demand, the rising state, as its power increases, will seek to change the status quo as the perceived

[1] Thucydides, *History of the Peloponnesian War*, trans. Rex Warner (Middlesex: Penguin Books, 1954); Halford Mackinder, *Democratic Ideals and Reality* (New York: W. W. Norton, 1962); Edward Hallett Carr, *The Twenty Years' Crisis, 1919–1939* (London: Macmillan, 1951); A.F.K. Organski, *World Politics* (New York: Alfred Knopf, 1958); A.F.K. Organski and Jacek Kugler, *The War Ledger* (Chicago: University of Chicago Press, 1980); Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981); Paul Kennedy, *The Rise and Fall of the Great Powers* (New York: Random House, 1987). See also Charles Doran and Wes Parsons, "War and the Cycle of Relative Power," *American Political Science Review* 74 (December 1980), 947–65; George Modelski, *Long Cycles in World Politics* (Seattle: University of Washington, 1987); William R. Thompson, *On Global War* (Columbia: University of South Carolina Press, 1988).

[2] Organski and Kugler (fn. 1), 23.

[3] Gilpin (fn. 1), 198.

[4] Organski and Kugler (fn. 1), 19, 23.

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> potential benefits begin to exceed the perceived costs of undertaking a change in the system.[5]

Apparently, conflicting views of the international status quo are hypothesized to be a key casus belli in system-transforming wars.

Students of hegemonic or power-transition wars also agree broadly in the specification of criteria for identifying the events that could transform the international system. As Gilpin notes, "the most important consequence of a hegemonic war is that it changes the system in accordance with the new international distribution of power"; therefore, "such a war . . . becomes total and in time is characterized by participation by all the major states and most of the minor states in the system. . . . For this reason, hegemonic wars are unlimited conflicts; they are at once political, economic, and ideological. . . ."[6] Organski and Kugler observe that such wars must include major powers as participants in each opposing coalition, and that they must make "an all-out effort to win" so that "the number of battle deaths reache[s] higher levels than in any previous war."[7]

The transformation of the international order through a large, bloody war is believed to be a consequence of hegemonic decline.[8] Yet system transformation can occur without such a conflict, or even when such a transformation was not the objective of relevant disputants. Moreover, a system transformation may fail to materialize even though it was the objective. A somewhat misleading view of such system-transforming wars may arise because of a tendency to study only those cases in which a large war was motivated, at least partially, by a desire to "redraft the rules" of the international system. By selecting cases only from these latter wars, researchers risk misstating the conditions that are either necessary or sufficient for such events. In order to delineate the necessary and sufficient conditions under which system-transforming wars can occur more fully, I propose a game-theoretic model as an addendum to theories of hegemony.

The International Interaction Game and the Status Quo

International politics are, of course, so diverse that no two interactions are likely to be exactly the same. Yet several essential features are common to the development of any relationship between states. These fea-

[5] Gilpin (fn. 1), 198, 186–87.
[6] Ibid., 198–99.
[7] Organski and Kugler (fn. 1), 46.
[8] For similar views of the causes of systemic wars, see, for instance, Manus Midlarsky, *The Onset of World War* (Boston: Unwin Hyman, 1988); Thompson (fn. 1).

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tures relate to sequences of decisions that encourage either friendly or hostile relations. To describe them, I begin with the assumption that each nation can be treated as a unitary actor. In the application of this assumption, I recognize that the metaphoric unitary actor is responsive to domestic political considerations as well as to calculations of support from its allies and of support for its enemies from *their* allies.

International interactions are assumed to arise in a context that provides some state with an opportunity to take the initiative in shaping relations—an initiative that may govern the future development of events. States shape their relationships through the selection of strategies. Different combinations of strategies result in different political outcomes. If, for instance, two states exchange demands and each state uses force to try to accomplish its goal, a war ensues. If the interaction between two states involves no demands, each has elected to live with the status quo. The selection of strategies is a function of the value that a state attaches to alternative outcomes and the beliefs it holds with regard to how its adversary will respond to its strategic decisions.

Let us assume that decision makers respond to circumstances by making the choice that they believe maximizes their expected utility from that stage of the game onward. They cannot precommit themselves to one or another future course of action—in the largely anarchic system of international relations no binding authority exists to enforce agreements against the participants' own will—but they can act in anticipation of their opponents' choices. That is, we assume subgame perfection in which forward-looking decision makers contemplate the consequences of their current strategic choices for an entire sequence of interactions.[9]

Let us further assume that state A has the opportunity to initiate an interaction; it can choose to make a demand (D^A) or not make a demand ($\sim D^A$) of another state. The demand may be about anything. Once A has made its move, as shown in the extensive form game depicted in Figure 1, state B has the opportunity to select a course of action. Using superscripts to name the actor selecting a strategy, we can say that if the initial sequence is $\sim D^A, \sim D^B$, the outcome is the maintenance of the status quo. If the sequence is $D^A, \sim D^B$, then B is said to acquiesce to A's demand. If A forgoes the opportunity to initiate a demand and allows B to initiate ($\sim D^A, D^B$), then A, by not making a counterdemand ($\sim d^A$), can acquiesce to B's demand ($\sim D^A, D^B, \sim d^A \rightarrow$ Acquiescence to B's demand), or A can make a counterdemand ($\sim D^A, D^B, d^A \rightarrow$ Crisis). Similarly, if the initial sequence of strategic choices were D^A, D^B, there would also be a crisis by

[9] Reinhardt Selten, "Reexamination of the Perfectness Concept for Equilibrium Points in Extensive Games," *International Journal of Game Theory* 4, no. 1 (1975), 25–55.

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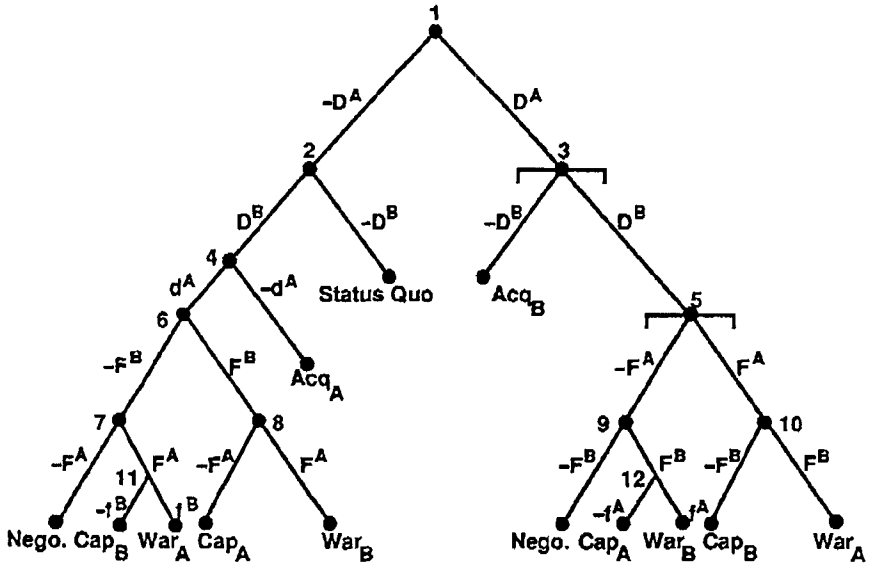

FIGURE 1
INTERNATIONAL INTERACTION GAME

A's second move. Failure by both parties to abide by the status quo and failure by either party to acquiesce to the other's demand results in a crisis.[10]

In a crisis, a state may choose to escalate the dispute further by using force, or it can attempt to defuse the situation by offering to negotiate: abiding by the status quo ante is no longer an option.[11] If there is an offer to negotiate, the adversary can reciprocate by not using force, or it can exploit the offer to bargain by attacking. Any time a state escalates a dispute by using force, it can expect one of two responses. The defender can capitulate to the attacker's demands, thereby cutting its battlefield losses, or it can retaliate, thereby escalating the dispute further so that it becomes a war.

The bracketed portion of Figure 1 (node 5) highlights the crisis subgame. In the crisis subgame, A faces the choice of offering to negotiate by not initiating the use of force ($\sim F^A$) or of escalating the dispute by

[10] David Lalman, "Conflict Resolution and Peace," *American Journal of Political Science* 32 (August 1988), 590–615; Robert Powell, "Crisis Bargaining, Escalation, and MAD," *American Political Science Review* 81 (September 1987), 717–35; James Morrow, "A Continuous-Outcome Expected Utility Theory of War," *Journal of Conflict Resolution* 29 (September 1985), 473–502; idem, "Capabilities, Uncertainty and Resolve: A Limited Information Model of Crisis Bargaining," *American Journal of Political Science* 33 (November 1989), 941–72.

[11] Lalman (fn. 10).

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using force to back up its demand (F^A). If A uses force, B must choose between capitulating to A's first strike (F^A,F^B). In the latter case, the strategy sequence $D^A,D^B,F^A,^A,\sim F^B$) or striking back by using force itself (F^A,F^B). In the latter case, the strategy sequence D^A,D^B,F^A,F^B results in a war initiated by state A.

If A offers to negotiate ($\sim F^A$), then B's choices can lead either to negotiations ($\sim F^A,\sim F^B$) or to escalation ($\sim F^A,F^B$). If B selects the escalatory path, then A must make a final strategic determination: to capitulate ($\sim f^A$) to B's enforced demand ($\sim F^A,F^B,\sim f^A$) or to retaliate ($\sim F^A,F^B,f^A$), resulting in a war initiated by B.

As is evident from Figure 1, international interactions can culminate in eight different generic outcomes:

> status quo; acquiescence to A's demand; acquiescence to B's demand; negotiation; capitulation to A; capitulation to B; war initiated by A; and war initiated by B.

Each of the possible outcomes can be characterized in terms of the expected value of the outcome to each player. The Appendix displays the assumptions that constrain the possible sequence of preferences over the game's otucomes.[12] With the assumptions taken into account, there are 52 possible orderings of the expected payoffs of the 8 outcomes of the game. Therefore, 2,704 unique combinations of orderings of expected outcomes are possible.

Most of the admissible orderings imply negotiations or the preservation of the status quo as the subgame perfect equilibrium outcome, but some orderings yield the expectation of war. The concern here is with the possibility of a system-transforming war when the status quo is highly valued, a condition explicitly ruled out by theories of hegemonic war or of power transition, and therefore a contradiction of those theories.

To establish that war is possible even though the status quo is highly valued, we must identify the conditions that are necessary and sufficient for war to be the equilibrium outcome of the international interaction game; then we can explain how uncertainty resulting from changes in the power of the rivals may affect the likelihood of war. This section concludes with a discussion of how the costs of war are linked to the value of the goals being pursued.[13]

The game implies the following theorem:

[12] The algebraic representation of the game's payoffs is found in Bruce Bueno de Mesquita and David Lalman, *War and Reason* (New Haven: Yale University Press, forthcoming).

[13] See ibid. for a more technical treatment of the relationship between the costs of war and the equilibrium conditions for war.

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War Theorem: War initiated by state A is the equilibrium outcome of the international interaction game if state A prefers to initiate a war rather than acquiesce to its adversary's demands; state B prefers to try to force the adversary to capitulate rather than to offer a negotiated settlement; B believes A would capitulate rather than retaliate if B strikes A; and B is prepared to strike back at its adversary rather than give in to its demands.[14]

The theorem indicates that states are inclined to strike first if they believe that they risk exploitation by offering to negotiate. The value attached to the status quo does not enter into the theorem at all. Consequently, whether a war is system transforming or not, the argument of power-transition/hegemonic war theorists to the effect that dissatisfaction with the international status quo is a necessary condition is contradicted by the international interaction game.

Although the above theorem is not consistent with hegemonic war theories regarding the status quo, it is consistent with important aspects of those theories. In particular, let us recall that such theories contend that the risk of system-transforming war is heightened when a rival increases in power sufficiently to challenge the hegemon. As the hegemon's preponderance is eroded, uncertainty increases regarding each actor's probability of defeating the other in a confrontation. In the face of such uncertainty, the decision makers' expectations about each other's future actions are critical.

A central source of uncertainty concerns whether the adversary is *believed* to prefer to retaliate if coerced. Suppose, for instance, that state A possesses private information that encourages its leadership to believe that it could win a war even if B struck first. Suppose B were uncertain of A's expectations; specifically, assume that B was sufficiently confident that it could still deter A. Then B would respond to an offer of negotiations by trying to coerce A into capitulating to B's demands. If A anticipates this response by B, then A will seize the initiative and attack B first. A's growth in power is, in this example, the source of the uncertainty as suggested by hegemonic war/power-transition theorists, and is the crucial ingredient pushing the rivals toward war even though they may be satisfied with the status quo.[15]

[14] For proofs of the theorem, see ibid., and Bruce Bueno de Mesquita and David Lalman, "The Road to War is Strewn with Peaceful Intentions," in Peter Ordeshook, ed., *Models of Strategic Choice in Politics* (Ann Arbor: University of Michigan Press, 1989), 253–66.

[15] For ease of presentation, assume that state B is risk-neutral or risk-averse. Let B be uncertain about its own and state A's subjective probability of success. Let B believe with probability β that A's probability of success is low enough that A will not retaliate if attacked. Then, using the notation explained in the Appendix, whether A actually prefers to retaliate or not, B will try to exploit A if $\beta > [\alpha^B + \phi^B] / [\alpha + (1 - P^B)(G^B - L^B)]$; and A, anticipating this exploitation, will prefer to start a war. A formal proof of this argument can be found in Bueno de Mesquita and Lalman (fn. 12).

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The war theorem reveals special characteristics of wars in which the rivals are satisfied with the status quo. In particular, a partial equilibrium condition of the war theorem is that the probability of success must be greater than a positive function of the ratio of the expected costs to the expected stakes, with the stakes defined as the difference between the utility attached to obtaining one's objectives and the utility attached to giving in to the rival's demands. If the status quo is highly valued *by both sides*, then it is likely that the magnitude of either side's demands does not deviate much from the value of the status quo, so that the stakes are small. Under those circumstances, the condition just described can only be satisfied if the expected costs are small. Thus, when the status quo is highly valued, the war will be fought only if the *expected* costs are small. And, when the battlefield costs rise above expectations without a concomitant increase in the stakes, it seems likely that the war will end.

The partial equilibrium condition, then, reveals that a war fought over small changes in the status quo must necessarily be expected to be a small war. Of course, as argued earlier, a small event may have profound consequences for the international order. For a demonstration, I turn to an assessment of the Seven Weeks' War.

The Seven Weeks' War: Pride of Place and the Status Quo

Prior to the war, an Austro-Prussian crisis had arisen because each side made demands regarding the disposition of the Elbe Duchies, and neither was willing to accept the other's wishes. Recall that, in 1864, Prussia and Austria fought as allies against Denmark during the Second Schleswig-Holstein War. As a consequence of that conflict, these two preeminent German states secured control over the disputed duchies of Schleswig and Holstein. Almost as soon as the war ended, internecine struggles ensued between Prussia and Austria over the governance of the captured territories. At stake for Prussia was access to a port for its navy, enhanced prestige among the lesser German states, and the demonstration that Prussia was no longer appreciably weaker than Austria. At the same time, Prussia's ambitions *within* Germany were constrained by its domestic sentiments against a fratricidal conflict and by Austria's favored position as the predominant German power throughout the history of the Germanic Confederation.

The nascent Austro-Prussian conflict that surfaced after their joint success against the much weaker Danes was brought to an apparent end by late 1865 with the signing of the Treaty of Gastein. The treaty accom-

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modated several of Prussia's aspirations while protecting and preserving Austria's prestige and preeminence within the German Confederation. Yet, in a few short months it became apparent that the treaty was not working. The immediate issues revolved around Bismarck's concern that Austria's right to administer Holstein was tantamount to *sovereignty* over the territory. Such an outcome—or even the right of the German Diet to decide Holstein's fate—frustrated Bismarck's immediate and long-term ambitions within the Confederation. To rectify the situation from its perspective, Prussia sought authority over Holstein, in partial violation of the Treaty of Gastein. Austria sought to extend its own control over Holstein and to restrict Prussian aspirations further by turning the resolution of the Duchy's sovereignty over to the German Diet, a body more under Austria's domination than under Prussia's. This, too, was a violation of the Treaty of Gastein.[16]

The central demand of Prussia amounted to a quest for pride of place within the leadership of Germany. As *The Economist* summarized the dispute on the eve of the war, "the demand, therefore, is simply that the minor States [of the German Confederation] shall follow Prussian lead instead of Austrian lead." Likewise, Austria's posture amounted to a desire to cling to the privileged position granted to it by the Congress of Vienna—to hold on to its own pride of place as the leader of Germany. *The Economist* continues:

> Tradition counts for a good deal among nations, and the German tradition is that the leadership of Germany belongs *de jure* to the "Kaiser," that the King of Prussia is an overpowerful feudatory. . . . This demand [of Prussia] is, however, an assertion that the feudatory intends to rule, and . . . will be resisted to the death by Austria, not only because it is inconvenient, not only because, like the claim to the Elbe Duchies, it greatly increases Prussian power, but because it terminates her own career as a German state, a career of which ruler and people are very proud, and also very jealous.[17]

Prussia's ambitions before the War of 1866 seem to have been relatively modest in the greater European scheme of things. Bismarck's energies before the war had largely been focused on securing his and the

[16] The Treaty of Gastein was supposed to settle the remaining questions of sovereignty over Schleswig and Holstein that resulted from the Austro-Prussian defeat of Denmark in 1864. Article 1 of the treaty stipulates that

> the common right obtained by the high contracting parties by Article 3 of the Treaty of Vienna of the 30th of October, 1864, is transferred, as respects the Duchy of Holstein, to his Majesty the Emperor of Austria, and as respects the Duchy of Schleswig, to his Majesty the King of Prussia, *without prejudice to the continuation of these rights of both Powers to the whole of both Duchies* [emphasis added].

See Alexander Malet, *The Overthrow of the Germanic Confederation by Prussia in 1866* (London: Longmans, Green, 1870), 106–10.

[17] *The Economist*, June 16, 1866, p. 699.

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king's political authority in the face of a reform-minded parliament and an obstreperous diet, rather than on grander efforts toward a unified Germany.[18] As Simon notes, many believed that "Bismarck had launched the war as a means of escape from his domestic difficulties," and that, while the war culminated in *kleindeutsch* unification, "*Bismarck did not intend it as such*."[19] Indeed, before the war Bismarck's ambitions regarding greater Germany appear to have been so limited that he seemed to be prepared to forgo the defeat of Austria in exchange for securing his limited goals regarding Holstein. Crankshaw comments that "there was a moment when it looked as though Austria might be ready to sell Holstein to Prussia, as she had sold Lauenberg; Bleichröder was active in raising funds for this; Bismarck was ready for it." Further, "had Austria got rid of Holstein for cash and then sold Venetia to Italy, which she could also have done at this time, the face of history would have been changed. For Bismarck would have had no excuse to go to war and no Italian ally if he did so."[20]

The demands of Prussia and Austria created an internal German crisis by casting doubt on the Treaty of Gastein. The crisis arose when Austria and Prussia faced the choice between negotiating a peaceful settlement of the dispute or escalating it by resorting to arms. Central to the argument here is the realization that Prussia and Austria valued the *international* status quo highly. Still, contrary to the assumptions of the theory of hegemonic war, they reached the crisis stage and waged a war of such importance that it transformed the international system.[21]

Recall that a necessary condition for war is that the challenger values initiating war more highly than it values offering to negotiate if there is a significant risk that the hegemon (Austria) will exploit the offer. Recall also that the risk of this situation arising would be heightened if the challenger's (Prussia's) power were underestimated. That these were the circumstances as perceived by Prussia is suggested by the fact that

> agitation continued in Holstein, and matters arrived at a crisis which might easily lead to either peace or war. It was necessary to consider whether a lasting and sincere friendship with Austria might be obtained

[18] See, for instance, Theodore S. Hamerow, ed., *The Age of Bismarck: Documents and Interpretations* (New York: Harper & Row, 1973); Hajo Holborn, "Bismarck's Realpolitik," *Journal of the History of Ideas* 21 (January–March 1960), 84–98; and W. M. Simon, *Germany in the Age of Bismarck* (London: George Allen & Unwin, 1968).

[19] Simon (fn. 18), 30 and 29 (emphasis added).

[20] Edward Crankshaw, *Bismarck* (London: Macmillan, 1981), 197, 200.

[21] For the characterization of crises, see Lalman (fn. 10); Powell (fn. 10); Steven Brams and D. Marc Kilgour, "Are Crises Rational? A Game-Theoretic Analysis," presented at the World Congress of the International Political Science Association, Washington, DC, August 28–September 1, 1988; Jeffrey Banks, "Equilibrium Behavior in Crisis Bargaining Games," photo dup. (1989), University of Rochester.

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> by further concession, not in this special case alone, but in the whole Holstein question, or whether it was the policy of Vienna here, as elsewhere, to suppress Prussia, and to prevent her free development in Germany by means of the press, the elements of revolution, the power of the Confederation, overtures for an alliance with France; in fact by every possible means.[22]

According to this account, the Prussian leadership was worried about being exploited by Austria, or about being suppressed by every means possible. This perspective is reinforced by Crankshaw's account. He notes that the Austrians, still believing that they possessed superior strength, were not prepared to negotiate with Bismarck in good faith. Thus, he reports that

> in January 1866 Austria was given what looked like another chance—by Bismarck himself. . . . [S]urrender to us the primacy of North Germany and we will help you to reconquer Lombardy. But Francis Joseph refused to consider the matter: he still believed he could manage a two-front war if only Russia and France kept out of it.[23]

Apparently Bismarck had reason to believe that an offer of concessions to Austria would only invite exploitation.[24] He also had reason to believe that Austria underestimated Prussia's ability to wage a successful war. As suggested in the game theory example based on uncertainty, Bismarck possessed information about Prussian power that was not available to the Austrians. For example, he and Moltke knew more about the benefits of the needle gun and about Prussia's superior skills in utilizing the railroads. The Austrians continued to rely on traditional approaches to warfare. With regard to the needle gun, for instance, "the overwhelming weight of opinion at regimental levels in the Austrian army continued to regard the rifle as a glorified pike."[25] Thus, given Austria's tendency to exploit adversaries who were perceived to be weak and given Bismarck's (and Moltke's) higher valuation of Prussia's chances of success, the Prussians chose war over further efforts at negotiations.

In examining the prewar view of the *international* status quo held by

[22] Department of Military History of the Prussian Staff, *The Campaign of 1866 in Germany*, trans. Colonel Von Wright and Captain Henry Hozier (London, 1907), 3. A similar sentiment regarding the Austrian penchant for exploitative behavior in negotiations is reflected in A.J.P. Taylor, *The Habsburg Monarchy, 1809–1918* (Chicago: University of Chicago Press, 1976), 123–38.

[23] Crankshaw (fn. 20), 201.

[24] See A.J.P. Taylor (fn. 22), 133, for an illuminating discussion of Francis Joseph's treatment of the Croats in negotiations in December 1866; even *after* the Seven Weeks' War, Francis Joseph continued to use coercion in dealing with rivals he perceived to be much weaker.

[25] Dennis E. Showalter, *Railroads and Rifles: Soldiers, Technology and the Unification of Germany* (Hamden, CT: Archon Books, 1975), 52–73, 105–39; quote at 123.

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Prussia and Austria, we must carefully separate their disagreements *within* the confines of the German state system from their views of how the international order ought to be functioning. The theory of hegemonic war and power transition emphasizes the value that the rivals attach to the international order, namely, the existing rules and practices that define the international status quo. These theories do not emphasize the local status quo between particular powers. Did Prussia and Austria differ regarding the rules by which the international system ought to have operated? The evidence suggests that they did not.

Austria's external policy, like Prussia's, was hostile to liberal reformers and democratic sentiments. Both Prussia and Austria were anxious to keep France's ambitions in check, as well as to counterbalance Russia in the East. In fact, Prussia and Austria, in addition to having jointly waged war against Denmark in 1864, remained allied with one another almost continuously from 1815 until the dissolution of the Habsburg empire at the end of World War I. Even the Seven Weeks' War only produced a brief interruption in their alliance of mutual defense. Bismarck strove to maintain good relations with Austria, even to the point of opposing Moltke's and King Wilhelm's desire to march on Vienna immediately after the victory at Königgrätz.[26]

In general, the interests of Austria and Prussia outside of Germany had advanced jointly during most of the nineteenth century prior to the 1866 war, even though the two great German states engaged in frequent internecine squabbles. Austria's centrality to the maintenance of the European international order is well documented. As Kennedy notes, "the general peace which prevailed in Europe for decades after 1815 was due chiefly to the position and functions of the Habsburg Empire."[27] In terms of the external affairs on which the power-transition/hegemonic war theories focus, there is little basis for arguing that Prussia and Austria were dissatisfied with the status quo.

In their bilateral relationship, the considerable strains between Austria and Prussia were *not over the international order*, but over pride of place in the German Confederation: the struggle for leadership within Germany. The Austrians presided over the German Diet in Frankfurt and steadfastly refused to share this privilege with the Prussians. To be sure, it was little more than a privilege. As the British envoy to the Diet ob-

[26] Ibid.; Otto Pflanze, ed., *The Unification of Germany, 1848–1871* (New York: Holt, Rinehart & Winston, 1968); Simon (fn. 18); Alan Palmer, *Bismarck* (London: Weidenfeld & Nicolson, 1976); Hamerow (fn. 18); Friedhelm Grützner, *Die Politik Bismarcks, 1862 bis 1871 in der deutschen Geschichtsschreibung* [The politics of Bismarck: 1862 to 1871 in German historiography] (Frankfurt am Main: Verlag Peter Lang, 1986).

[27] Kennedy (fn. 1), 163.

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served, "In all matters upon which the two great Powers were agreed, the Diet's proceedings were marked by the most commendable activity and promptitude; if they differed ... the game of official delays and chicanery of all kinds was played to the utmost."[28] Still, it is likely that war would have been averted had the Austrians agreed to shared leadership. Palmer, for instance, reports that,

> if Mensdorff succeeded in calming the military party around Francis Joseph, there was every possibility of a change of front by Austria, as at Gastein the previous summer. Bismarck was, in consequence, determined to have ready an alternative policy which would provide for rapid Austro-Prussian reconciliation should Francis Joseph abandon the traditional Habsburg pretensions to dominate Germany.... Bismarck ... was prepared for a dramatic change in policy right up to the moment the first troops crossed the frontier."[29]

After the war, when Bismarck had removed all beliefs that Prussia was a second-rate power, he again pursued peaceful relations with Austria. Following Prussia's victory, and the establishment of the *kleindeutsch* policy that expelled Austria from Germany, "Bismarck wished to preserve Austria as she was in 1866—defeated, but still German. ..."[30]

Austria and Prussia disagreed little regarding the operation of the international order; thus, they failed to satisfy a fundamental condition of the theory of hegemonic or power-transition war. But the expectations of those theories were satisfied in other important respects. The power-transition and hegemonic war perspectives hypothesize that differences in rates of growth produce necessary conditions for war. In particular, if the weaker "challenger" is rising to equal and overtake the declining hegemon, a fundamental condition for a power-transition war is satisfied. As Figures 2a and 2b make clear, there was a power transition from declining Austria to rising Prussia. Figure 2a, using pig iron production as an indicator of economic performance, shows that Prussia's share of the great powers' production rose to equal Austria's production around 1837; it remained roughly equal for another ten years, and then overtook Austria's significantly during the next two decades. By 1866, Prussia's economic capabilities had pulled far ahead of Austria's.

As is often the case, the transition of military power lagged behind the economic transition. During the first half of the nineteenth century, Austria maintained a substantial advantage over Prussia in military might when measured as the countries' respective shares of total military personnel and military expenditures among the great powers. From the

[28] Malet (fn. 16), xxii. [29] Palmer (fn. 26), 111. [30] Taylor (fn. 22), 129.

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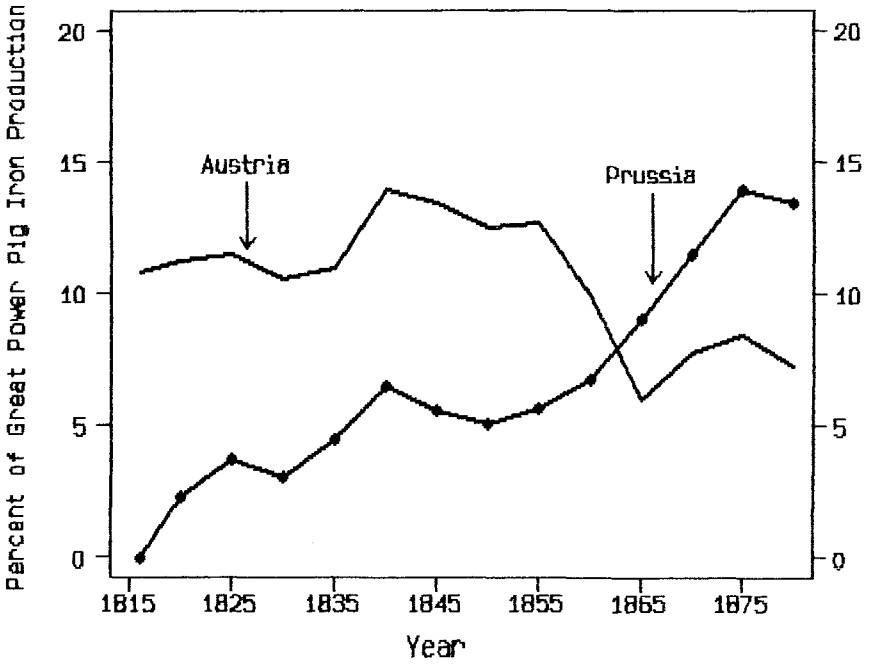

FIGURE 2a
THE AUSTRO-PRUSSIAN ECONOMIC TRANSITION[a]

[a] The data on pig iron were provided by the Correlates of War Project at the University of Michigan.

mid-1850s on, Austria began a precipitous decline in its military capabilities while Bismarck launched Prussia on a campaign of military expansion. According to the indicators used here, the power transition literally occurred in 1866.

The evidence thus far suggests that the critical difference in growth rates postulated by power-transition and hegemonic stability theorists was satisfied in 1866, but that the required disagreement over the *international* status quo was not satisfied. It is possible, however, that there was a widespread *perception* of a sharp disagreement over the international status quo even though, by objective criteria, such differences did not exist. We can never know with certainty what others believed at a given time, but it is possible to develop sensitive indicators that should reflect quite precisely the prewar beliefs about the impact of an Austro-Prussian war on the international status quo.

The cost of money—the money market discount rate—in key financial centers reflects people's *expectations* regarding the future value of that

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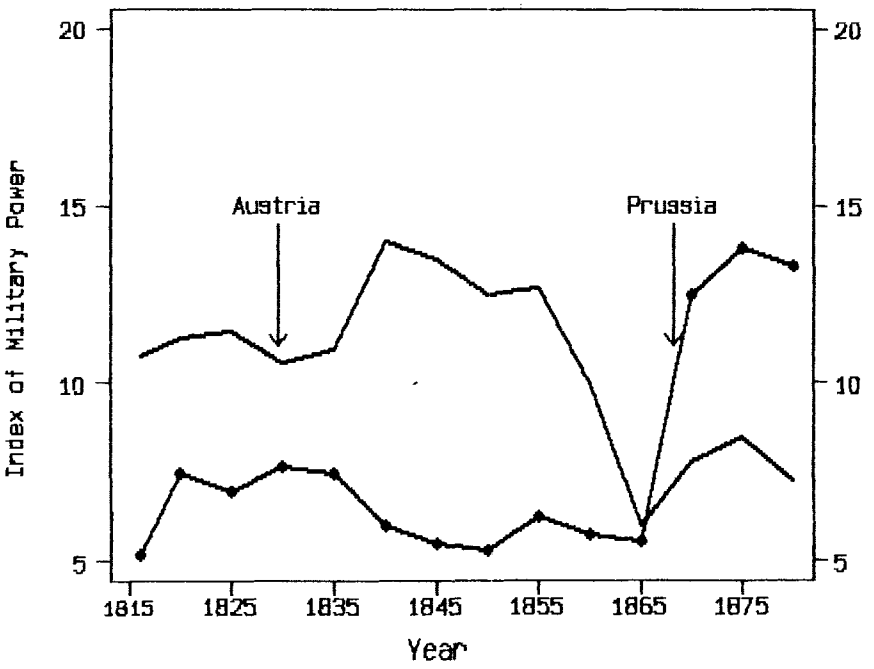

FIGURE 2b
THE AUSTRO-PRUSSIAN MILITARY TRANSITION[a]

[a] The data on military power were provided by the correlates of War Project at the University of Michigan.

money. When, for instance, a government finds it difficult to borrow money, it is forced to raise the rate it pays for the money—the discount rate—to attract lenders. Thus, a rising discount rate for a nation's money reflects a broad base of declining confidence in that nation.

Just as the rise or decline in discount rates reveals information about *expectations*, so do changes in discount rates across countries. If external conditions are expected to affect everyone more or less equally, the money market discount rates for different currencies fluctuate more or less equally; each will respond equivalently to rising or falling fears and uncertainties. But, *if some countries are expected to be differentially affected by events, their rates will rise or fall (depending upon the content of expectations) more than that of other, less affected, countries.*

Figure 3a depicts biweekly observations of the money market discount rate for Berlin and for a European baseline (defined as the average of the discount rates for London and Amsterdam, two key financial centers in the nineteenth century) between January 1863 and January 1865. The

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Second Schleswig-Holstein War began in early 1864, with a cease-fire interrupting the combat for all of May and most of June 1864. When negotiations failed during the cease-fire, fighting resumed and Denmark was defeated, losing control over the Elbe Duchies. The expectation that Denmark would lose the war, and territory, to the Prussian/Austrian alliance is clearly reflected in Figure 3a. The four small marks on the time line between 1864 and 1865 denote the beginning of hostilities, the interruption of war by the cease-fire (and the beginning of negotiations), the collapse of negotiations (and the resumption of fighting), and the conclusion of the war. The cost of money in London and Amsterdam rose at the outset of the war, responding in part to the general disquiet that war provokes in financial circles. The price of money fell just prior to the cease-fire, and rose again sharply in anticipation of the failed negotiations. At the same time, the price of Prussian money *fell* rapidly once the war got under way; it rose to meet the European base rate only *after* the war ended. The clear separation in money discount rates, and the decline in the price Berlin had to pay relative to other money centers, suggests that the status quo was expected to change in Prussia's favor because of the Second Schleswig-Holstein War.

The mean spread in the money market rates between the London-Amsterdam base and Prussia from January 1, 1863, to the outbreak of hostilities on February 1, 1864, when compared to the period of the fighting (February 1 through July 20, 1864) increased significantly during the war. The t-statistic is 4.42 ($N = 42$), indicating that the events of the war almost certainly influenced the competitive edge gained by Prussian funds.[31]

Figure 3b tracks the same variables as Figure 3a, for the period 1865–1868. The small marks on the time line denote the signing of the Treaty of Gastein (August 1865), the announcement of the Italo-Prussian alliance (April 8, 1866), the mobilization of the Prussian army on May 5 (the Austrians having made their military preparations by early march), the recognition of the inevitability of war by June 16, and the conclusion of the war in late July. The uncertainties provoked by the expectation of war are reflected in the rising discount rate for money. That the great swings in the cost of money were driven by war fears is supported by the accounts in *The Economist* that accompany the weekly reportage of discount rates: "the Bourse has been greatly agitated every day . . . by the dread of war in Germany." Again, "the Bourse has been dreadfully agi-

[31] Comparable indicators for Vienna cannot be utilized as the Austrian discount rate was fixed by the government rather than by auction and was not permitted to fluctuate frequently.

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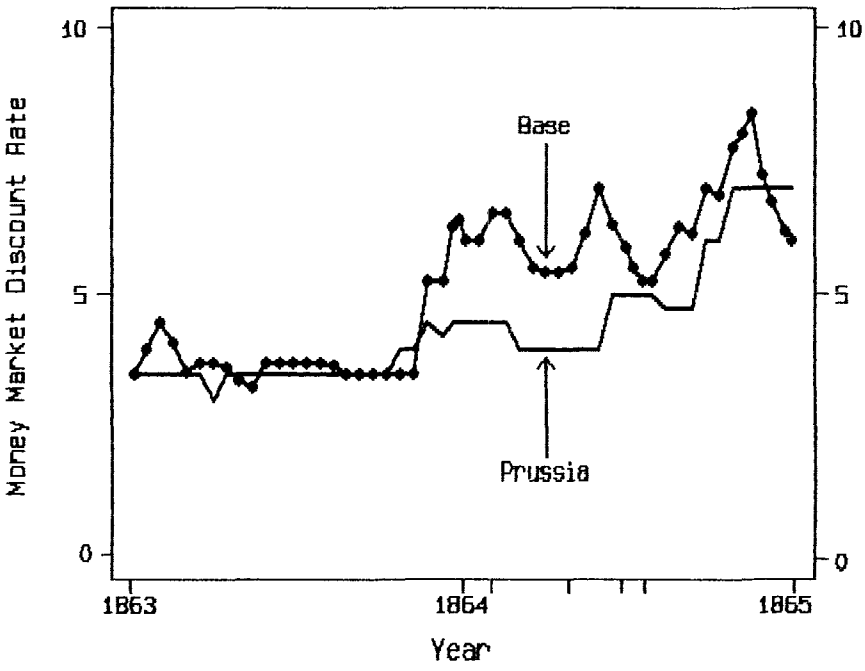

FIGURE 3a
THE SECOND SCHLESWIG-HOLSTEIN WAR, 1864

tated during the past week by the prospect of war, and prices have fallen heavily."[32] Similar reports can be found virtually every week up to the outbreak of hostilities.

Figure 3b demonstrates that, despite the fear of war and its reflection in the rising cost of money, the crisis did not have a substantial differential impact on the expectations concerning Prussia. During the war, however, while the cost of money rose markedly in London, Berlin, and Amsterdam, it rose *more* in Prussia. This reinforces the widely reported observation that Prussia was expected to lose the war.[33] The fact that the price differential between Berlin and the other key financial centers was small supports the belief that the perceived stakes in the war were not very large. It is interesting to note that immediately after the battle of Königgrätz the market responded with a rapid fall in the price of money,

[32] *The Economist*, April 7, 1866, p. 414, and May 5. 1866, p. 535.

[33] Simon echoes the sentiment of many historians when he writes, "it is important to remember that it was by no means a foregone conclusion that Prussia would win; pessimism was widespread in the Prussian camp, and the Austrian government was confident of victory" (fn. 18), 30–31. See also Taylor (fn. 22), 126, regarding expectations from the Austrian perspective, and Showalter (fn. 25), 121, for a general view of Prussian weaknesses.

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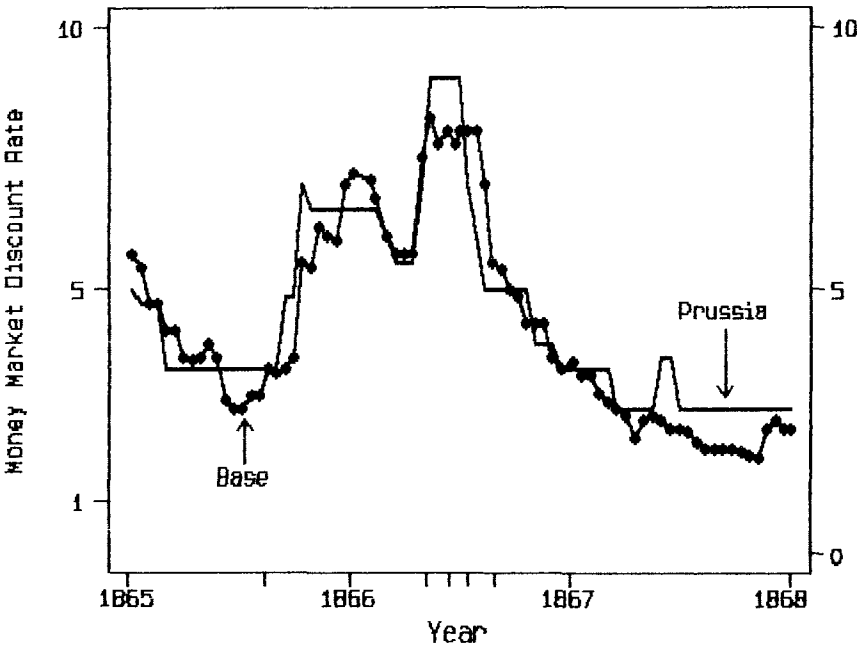

FIGURE 3b
THE SEVEN WEEKS' WAR, 1866

in which Prussia *led* the baseline of London and Amsterdam. Thus, the expectations in the financial markets were updated to take account of the new information revealed on the battlefield—that the market had underestimated Prussia's chance of victory. The prewar fears of postwar inflation or of defaults on money instruments by a defeated Prussia were allayed by Prussia's decisive victory.

Prussia's place in the European international system was not expected, ex ante, to be fundamentally changed by the Seven Weeks' War; this can be seen from a statistical assessment of the difference in the price of money for a significant period prior to the war compared to the period surrounding the war. If the period surrounding the war's crucial events—from the announcement of the Italo-Prussian alliance on April 8 to the end of the war on July 28—had reflected expectations of a fundamental change from the status quo ante for Prussia, the mean *difference* between the Prussian and base discount rate for that period would have been significantly different from the mean difference for the prewar period. If the *international* status quo had not been perceived to be at risk, then there would not have been a significant difference.

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Taking the mean difference between Prussia's rate and the average rate for London and Amsterdam from January 1, 1865, to April 1, 1866, as the baseline, I compare this mean to the comparable mean price differential during the events of the crisis and the war. The *t*-statistic for the difference is -1.054 ($N = 43$), which is *not* significant. The money market data support the argument that Prussia was *not* expected to be differentially affected by the war; the status quo ante—in which Austria was the dominant German state—was expected to prevail.

From this and the preceding discussion we can conclude that, both on objective and on expectational grounds, the Seven Weeks' War was not fought over an alteration of the *international* status quo. The war was not about changing the "rules" of the international order, nor was it fought because one of the antagonists was dissatisfied with that order. Thus, according to the theories of power-transition/hegemonic war, the Seven Weeks' War could not have been a system-transforming war. Yet by the war's end, a major reorganization of Europe came to be expected.

The Seven Weeks' War and System Transformation

During the second half of 1866 and throughout 1867, a sequence of events unleashed forces that were to shape much of the course of European history up to and beyond the outbreak of World War I. *These forces were clearly visible and took meaningful shape well before the outbreak of the Franco-Prussian War, which itself was made possible by the War of 1866.*

Austria, excluded from Germany by the Peace of Nikolsburg, sought new arrangements in a greater Austro-Hungarian Empire to preserve her great-power status. As late as the spring of 1866, just on the eve of a war that was expected to be won by Austria, the Austrian government had been intransigent in its negotiations with Hungary over union. After the war, when Hungary offered the same "deal" as before, Austria no longer had much choice in the matter. As Taylor observes, "The Austria which emerged from the war of 1866 was created by Bismarck as much as the Austria which emerged from the Napoleonic Wars was created by Metternich."[34]

Francis Joseph's willingness to accept the establishment of Austria-Hungary after the Seven Weeks' War was motivated by his desire to secure Austria's position as a great power. For this purpose, he ceded considerable power within the empire to the Magyars and helped to release nationalistic sentiments in Eastern Europe that even today jeopardize stability. According to Michaelis,

[34] Taylor (fn. 22), 126ff.

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> While the revolution of 1848 had awakened the national consciousness of eastern European peoples, the Prussian victory over Austria now provided them with the opportunity to fight actively for the realization of their national goals. Königgrätz set in motion the whole eastern realm of nationalities, both inside and outside the monarchy, a movement that was never again to cease.[35]

Taylor makes a similar observation:

> The settlement with Hungary could be challenged only if Czechs and Germans were reconciled, and any real concord among the peoples of Austria, though it would weaken the Magyars, would endanger also the supremacy of the Emperor. . . . Magyar hegemony was the price which Francis Joseph was willing to pay for the preservation of his own power; and since this Magyar hegemony brought the Habsburg Monarchy to destruction, Francis Joseph was the maker of his own ruin.[36]

At least as significant as the forces liberated in Eastern Europe was the war's impact on the balance-of-power system established by the Congress of Vienna. The European order that had generally preserved peace among the great powers of Europe since 1815 was at an end. As Grützner puts it, "a world indeed collapsed, the world of the Congress of Vienna."[37] France and Russia started to press for a new congress to establish order in the emerging Europe and to protect their position and the balance of power.

The collapse of the existing European order had neither been planned by Bismarck nor even been recognized until several weeks after the war ended. The effects of the war remained unclear to Europe's other great powers until Bismarck had achieved the relatively moderate peace terms he desired—a peace that preserved Austrian sovereignty and left open the opportunity for realignment with Austria. While negotiating with the Austrians, Bismarck wrote to Tsar Alexander that "he was not to worry; there would be no drastic change in the map of Europe, since all that Prussia asked was a reform of the Confederation with the expulsion of Austria from Germany, and a final accounting in the matter of the duchies." It was only about a month later, with the war settled and Bismarck's possibilities clearer to him, that France and Russia understood how fundamentally the balance of power had changed.

> Then there was urgent talk of a European congress: if the Continental order established by the Congress of Vienna was to be replaced by a dif-

[35] Herbert Michaelis, "Königgrätz, 1866: Defeat of Liberalism and Universalism," in Pflanze (fn. 26), 106–13.

[36] Taylor (fn. 22), 141. See also Simon (fn. 18) on the formation of Austria-Hungary as a consequence of the Seven Weeks' War.

[37] Grützner (fn. 26), 80. "Tatsächlich stürzte eine Welt ein, die Welt des Wiener Kongresses" (author's translation).

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> ferent system, then the signatories to the Treaty of Vienna must meet to sanction the changes—or to forbid them. . . . This time Bismarck, the man of moderation, snarled almost shockingly and showed his teeth. . . . he was the minister-president of a Prussia which had just revealed herself as the military superior of Austria and almost certainly of France as well. . . . now he showed that if Prussia could not get her own way (meaning his, Bismarck's, own way), he was ready to plunge all Europe into revolutionary violence.[38]

Between Prussia's victory at Königgrätz and the end of 1867, Bismarck implemented his *kleindeutsch* policy, leading quickly to the unification of northern Germany. The Treaty of Nikolsburg had ended Austrian hopes for a *grossdeutsch* policy that envisioned a unified Germany including both Prussia and Austria. Bismarck's *kleindeutsch* policy dominated Central European affairs until Hitler—an Austrian—launched the *Anschluss* that brought Austria back into greater Germany. By means of a war fought over lesser issues, Bismarck had unified much of Germany, prompted the formation of Austria-Hungary, unleashed nationalist sentiments in Eastern Europe, and brought the Congress of Vienna system to a crashing end. No wonder that contemporary observers were astounded by the war's development.

> Events of so startling a character have taken place in the theater of war and present such an aspect of importance toward the future that the mind is dizzied by its attempt to estimate their real importance.[39]

> Thirty dynasties have been swept away, . . . the fate of twenty millions of civilized men has been affected for ever, the political face of the world has changed as it used to change after a generation of war. . . . Prussia has leaped in a moment into the position of the first Power of Europe.[40]

The contemporaneous accounts reflect not only the flushed excitement of the moment, but also depict an enduring perspective on the consequences of the Seven Weeks' War. In this regard, it is worth contemplating Grützner's comparison of the Seven Weeks' War to the Franco-Prussian War. He argues that "the secular significance of 1866 has been underestimated by many German historians of the older generation. . . . Rather, the Franco-Prussian War would today be classified as only an epilogue to the policies inaugurated in 1866."[41] The Seven Weeks' War,

[38] Crankshaw (fn. 20), 219, 220–21.

[39] *Illustrated London News* 29 (July 14, 1866), quoted in Gordon A. Craig, *The Battle of Königgrätz: Prussia's Victory over Austria, 1866* (Philadelphia: Lippincott, 1964).

[40] *The Spectator* (London) 39 (July 7, 1866), quoted in Craig (fn. 39).

[41] Grützner (fn. 26), 80. "Die säkulare Bedeutung des Jahres 1866 unterschätzen viele deutsche Historiker der älteren Generation. . . . Dagegen wird heute der deutsche-französische Krieg eher als Epilog einer bereits 1866 inaugurierten Politik eingeordnet" (author's translation).

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"der Bruderkrieg" as it is sometimes called, was motivated by Prussia's ambitions *within* the German community; it was expected to be of only minor consequence for the international status quo in Europe. In defeating Austria, however, Prussia overturned that status quo. How can we explain the emergence of German hegemony and the reordering of the post–Congress of Vienna international system as a consequence of a war fought over issues deemed by the theory of hegemonic war or of power transition to be too inconsequential to have such results?

War Costs and the International Interaction Game

The international interaction game provides a missing link in the puzzle of the Seven Weeks' War and the emergence of German hegemony. We have seen that war can be an equilibrium outcome even though the status quo is highly valued. But such a high valuation of the status quo imposes limitations on the expected magnitude of the ensuing war. If the stakes are expected to be relatively small—as in the case of the Seven Weeks' War—then the expected costs of the war *must* be low. If we assume that actual costs are correlated with observed costs, then wars between rivals who value the status quo highly are likely to be small wars.

Austria's demands were minor enough in terms of the overall international order; she sought to hold on to her first place among the German states. The Habsburgs did not (and were not expected to) demand territory from the Prussians. Nor did they demand a change in Prussia's external policies or any diminution in Prussia's role in the German Diet. They did not demand any fundamental change in Prussian policy; all they expected was continued deference to Austria as the first among equals. Likewise, Prussia's demands *before* the war were modest, although the possibilities opened by Bismarck proved not to be.

Prussia demanded a share in the title of first among equals in the German Confederation; she wanted to play a leading role in Germany, but did not demand an inch of Austrian soil. To be sure, Austria's acquiescence to Bismarck's demands would have increased Prussia's influence within the Diet over the disposition of Holstein. Still, the demands themselves were not enough to alter the perception of Prussian power in Europe fundamentally, as is suggested by the analysis of money market discount rates and by the review of Prussian policy before the war. This opinion is reinforced by the interpretation of several historians that the war, rather than the issues that produced the war, changed history.[42]

[42] See, for instance, Simon (fn. 18), 22-38; Crankshaw (fn. 20), 189–223; Taylor (fn. 22), 123–40; Grützner (fn. 26), 80–117; Michaelis (fn. 35).

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Thus it was that the war which ultimately transformed the international system was fought over relatively minor issues in the *international* context—issues so insignificant that several authorities suggest war could have been averted by the *purchase* of Holstein from Austria, a purchase Bismarck was willing to make.

To say that the *international* status quo was reasonably well liked by the combatants and that the magnitude of the competing demands was fairly small is akin to saying that Prussia and Austria could satisfy the equilibrium conditions for war only if the expected costs were even smaller than the expected stakes. Thus, according to the international interaction game, the Seven Weeks' War, even though it ultimately transformed the international system, was likely to be a small war as far as costs are concerned.

In fact, in terms of duration, of total battle deaths, and of battle deaths per million of population, the Seven Weeks' War is unusually small in scope as multilateral wars go. Battle deaths per million population, for instance, represent only about one percent of all such deaths in multilateral European wars since 1816. This is a level approximately one-tenth of the statistically "expected" level of losses for such a war[43] even though the war directly involved three great powers and eight lesser states, with a fourth major actor (France) playing a crucial role on the sidelines. Indeed, with the auxiliary assumption that observed costs and expected costs are highly correlated, we see that in a variety of subtle ways the costs of war across a large cross-section of such events are consistent with the expectations derived from the international interaction game's equilibrium conditions for war.[44]

Conclusion

The relationship between expected costs, stakes, and the status quo derived from the international interaction game reveals a significant, though unintended, selection bias in some research on great-power wars. Some analysts mistakenly infer that incidents which yield major consequences must have been major events themselves. But great consequences may result from small causes. The conditions stipulated in theories of hegemonic war or of power transition are not essential for the

[43] The data for this assessment are drawn from Melvin Small and J. David Singer, *Resort to Arms: International and Civil Wars, 1816–1980* (Beverly Hills, CA: Sage Publications, 1982).

[44] For a more detailed analysis of the anticipated costs of conflict in light of the theoretical expectations derived from the game, see Bueno de Mesquita and Lalman (fn. 12), and Bruce Bueno de Mesquita, "Big Wars, Little Wars: Avoiding Selection Bias," *International Interactions* 16 (forthcoming).

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occurrence of system-transforming wars. The perspective that views system-transforming wars as *necessarily* involving some combination of extended battles, many casualties, participation by many nations, and usually the exchange of territory conflates causes with consequences. Contrary to the expectations of these theories, we have a case of a system-transforming war in which the stakes were rather modest and in which—despite the many states involved and the masses of troops assembled at the decisive battle—casualties were relatively modest and the fighting lasted only a short time.

The game-theoretic analysis suggests that, by relaxing the assumptions that assign special significance to the satisfaction of rivals with the international status quo and that restrict the purview of researchers to large, costly wars, we can complement the explanatory potential of hegemonic war theories. The game itself is not designed only to account for war among the great powers, nor even only to account for war. Rather, it is a general scaffolding for understanding a broad array of international interactions. In that regard, it differs markedly from the theories of power transition and of hegemonic war; yet, it is a complement rather than a substitute for them. These theories, and attendant empirical assessments, have drawn our attention to the prospective importance of power parity and differential growth rates in influencing the courses and outcomes of great wars.[45] The game-theoretic perspective reveals the added potential for explaining great-power wars within the same theoretical context as lesser wars, thereby diminishing the tendency to use ex post facto information in analyses. Because hegemonic wars are generally known to be so only *after* the fact, the development of theory is critical in helping to point to the risk of such events ex ante. This, I believe, is a characteristic that the game adds to the power-transition theory's already helpful focus on differences in rates of growth and power.

APPENDIX

Six assumptions establish the range of preference orderings over outcomes within the international interaction game:[46]

[45] See, for instance, David Garnham, "Power Parity and Lethal International Violence," *Journal of Conflict Resolution* 20 (September 1976), 379–94; Erich Weede, "Overwhelming Preponderance as a Pacifying Condition among Contiguous Asian Dyads," *Journal of Conflict Resolution* 20 (September 1976), 395–412; Henk Houweling and Jan Siccama, "Power Transitions as a Cause of War," *Journal of Conflict Resolution* 32 (March 1988), 7–102; Woosang Kim, "Power, Alliance, and Major Wars, 1816–1975," *Journal of Conflict Resolution* 33 (June 1989), 255–73.

[46] For a full explanation and justification of these assumptions, see Bueno de Mesquita and Lalman (fn. 12).

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A1: Given subgame perfect behavioral strategies, players choose the strategy with the greatest expected utility.

A2: The outcome of war is probabilistic, with P^i being player i's subjective probability of gaining its demand, with $A,B \epsilon i$.

A3: The initiator of force gains its demand with certainty only if the adversary chooses to capitulate rather than to retaliate. The capitulating state loses with certainty.

A4: All nations prefer to resolve their crises through negotiations rather than to reach the same resolution *after* bearing the heavy human, material, and political costs of war.

A5: Each outcome of the crisis subgame has potential benefits and/or costs associated with it. We decompose the costs into constituent parts such that $\alpha, \tau, \gamma, \phi > 0$; and $\tau > \alpha, \Gamma$. α is the cost in lost life and property associated with fighting *away* from one's home territory; τ is the cost in life and property of fighting at home as the *target* of an attack; γ is the cost in life and property from a first strike to which the attacked party *gives in*; and ϕ is the domestic political cost (separate from lost life and property) associated with using *force*.

A6: The utility from gaining one's demands exceeds the utility from keeping the status quo, which in turn exceeds the utility from losing by acceding to an adversary's demands: $G > Q > L > 0$.

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POSTREVOLUTIONARY MOBILIZATION IN CHINA
The One-Child Policy Reconsidered

By TYRENE WHITE*

DURING the 1980s, the study of Chinese politics was dominated by the premise that the death of Mao and the rise of Deng Xiaoping marked the beginning of a new political epoch. Some scholars argued that the political course set in motion at the famous Third Plenum of the Eleventh Central Committee of December 1978 signaled a fundamental, even revolutionary break with the past; others saw a slower drift from a monistic system toward a more consultative authoritarianism.[1] Either way, the deradicalized, demobilizational thrust of the post-Mao reforms appeared to augur China's transition to a "postrevolutionary phase" of political normalization, regularized decision making and institutionalized party rule.[2] Against that background, China's "one-child-per-couple" family planning policy, introduced in 1979, appeared to run counter to the post-Mao political premise. With its radical goal, collectivist values, and mobilizational flavor, the one-child policy bore many of the characteristics of a Maoist-era mass mobilization campaign.

To account for this contrast, some scholars considered the one-child policy to be an isolated exception to the demobilizational trend; they argued that the specter of a looming population crisis that would under-

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[1] Lowell Dittmer, *China's Continuous Revolution: The Post-Liberation Epoch, 1949–1981* (Berkeley: University of California Press, 1987); Harry Harding, "Political Development in Post-Mao China," in A. Doak Barnett and Ralph N. Clough, eds., *Modernizing China: Post-Mao Reform and Development* (Boulder, CO: Westview Press, 1986), 13–37; Harry Harding, *China's Second Revolution: Reform after Mao* (Washington, DC: Brookings, 1987); Tang Tsou, "Back from the Brink of Revolutionary-Feudal Totalitarianism," in Victor Nee and David Mozingo, eds., *State and Society in Contemporary China* (Ithaca, NY, and London: Cornell University Press, 1983), 53–88.

[2] Richard Lowenthal, "The Post-Revolutionary Phase in China and Russia," *Studies in Comparative Communism* 16 (Autumn 1983), 191–201; Dittmer (fn. 1), 11.

World Politics 43 (October 1990), 53–76

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cut the modernization goals of the new elite left no alternative to a strict birth control program.[3] Others, however, assumed that, all reformist statements and policies notwithstanding, the one-child campaign was revelatory—that is, evidence of a mobilization regime at its intrusive, penetrative worst.[4] Still others maintained that the enduring mobilizational impulse revealed by the one-child campaign was an artifact of the previous revolutionary epoch that would slowly disappear during the transition to institutionalized party rule.[5] What these views had in common was their implicit reference to an underlying model of Leninist regimes, one in which mobilization cannot outlive the transition to postrevolutionary communism. This model was most fully elaborated by Richard Lowenthal, who argued that, as modernization proceeds, the political attributes of the revolutionary phase—personalized, charismatic rule, revolutionary class struggle, and mass mobilization in pursuit of radical political and economic goals—inevitably give way to the postrevolutionary politics of oligarchic rule, regularized decision making, and party institutionalization.[6]

The Lowenthal model has drawn criticism on many counts,[7] but the hypothesis that postrevolutionary regimes eventually lose the capacity and desire to use mobilizational means has met no serious challenge. Kenneth Jowitt, for example, warned against interpreting the transition as a smooth and unilinear one. He argued that the difficult process of transition from revolutionary consolidation to postrevolutionary rule—or in his words, from the task of mobilization to the task of "inclusion"—frequently triggers mobilizational responses from threatened party elites. He also rejected the notion of a strict dichotomy between the mobilization and postmobilization phases, arguing for the existence of "*amalgam-regimes*" that represent "fragile combinations" of the two. Stressing that coexistence did not imply compatibility, however, he con-

[3] Martin King Whyte, "Who Hates Bureaucracy? A Chinese Puzzle," in Victor Nee and David Stark, eds., *Remaking the Economic Institutions of Socialism: China and Eastern Europe* (Stanford, CA: Stanford University Press, 1989), 233–54; Joyce K. Kallgren, "Politics, Welfare, and Change: The Single-Child Family in China," in Elizabeth J. Perry and Christine Wong, eds., *The Political Economy of Reform in Post-Mao China* (Council on East Asian Studies, Harvard University, 1985), 131–56.

[4] Steven W. Mosher, *Broken Earth: The Rural Chinese* (New York: Free Press, 1983).

[5] Harding (fn. 1, 1986).

[6] Richard Lowenthal, "Development vs. Utopia in Communist Politics," in Chalmers Johnson, ed., *Change in Communist Systems* (Stanford, CA: Stanford University Press, 1970), 33–116; Lowenthal (fn. 2).

[7] For a cogent review of these critiques, see David Stark and Victor Nee, "Toward an Institutional Analysis of State Socialism," in Nee and Stark (fn. 3), 1–31. See also Constance Squires Meany, "Is the Soviet Present in China's Future?" *World Politics* 39 (January 1987), 203–30; Kenneth Jowitt, "Inclusion and Mobilization in European Leninist Regimes," *World Politics* 28 (October 1975), 69–96.

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curred with Lowenthal on the fundamental conflict between mobilizational and postmobilizational methods of political rule, describing the two methods as stark opposites. According to Jowitt, mobilization is characterized by the "controlled or elite-directed *disruption*" of "social, personal, institutional, and psychological" routines, as opposed to "the *methodical* consideration and management of tasks" characteristic of postrevolutionary rule.[8]

Do these propositions fit the Chinese case? The brutal crackdown on the 1989 democracy movement was a perfect illustration of Jowitt's "threat-reaction" model of elite response to a regime-threatening crisis. In this essay, however, I will argue that mobilization has remained an integral, active part of the postrevolutionary Chinese political process, not merely a reactive tool of fearful conservatives. Using the one-child campaign as a case study, I will demonstrate that the instrument of mobilization in Chinese politics, the mass campaign, was inherited by Deng Xiaoping as a part of the institutional legacy of the Maoist regime. Despite their unambiguous repudiation of Maoist campaign methods in 1978, the post-Mao reformers sought to harness them in practice for their own purposes, transforming an instrument of calculated disruption into an instrument of methodical, engineered change. As a result, the form, content, and intensity of the campaign changed over the course of the decade, but mobilization remained an essential instrument of communist party rule, particularly in the countryside.

Mobilization after Mao

One of the defining characteristics of the Maoist era in Chinese politics (1949–1976) was the continual use of "mass mobilization campaigns" (*qunzhong yundong*) to achieve socialist goals. Although mobilizational methods were a standard tool of political organization in other Leninist regimes, the Chinese campaigns were distinctive for the "utter seriousness" with which political study and ideological transformation were pursued.[9] For Mao, revolutionary goals were primary; under his leadership, China's revolutionary politics oscillated between two types of intensive mass participation and political struggle. The first was "storming," the distinctively Maoist model of mobilization from below, in which the

[8] Ibid., 93 and 94–95. Jowitt's challenge goes far toward acknowledging a continuing role for mobilization in postrevolutionary regimes, but whereas he views the continued use of mobilization to be *negative* or *reactive*, a "response to the problems and challenges" of expanding the bases of regime support, I view it as a *positive instrument* of power.

[9] Andrew Walder, *Communist Neo-Traditionalism: Work and Authority in Chinese Industry* (Berkeley: University of California Press, 1986), 121.

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elite party membership is subjected to rectification by the nonelite masses. The second was "engineering," the Maoist-Liuist-Leninist model of party-controlled mobilization from above in pursuit of specific and practical goals.[10]

Campaigns served at least three vital functions during the Maoist era. First, they helped the party transcend its own organizational limits by recruiting and leading mass participants in a wide variety of tasks—everything from implementing new marriage laws, to disease control, to eliminating counterrevolutionaries.[11] This function was particularly important during the 1950s, when mass involvement was needed to reinforce the party's administrative capacities and to indoctrinate and mobilize a newly liberated population. Second, campaigns were tools for correcting various bureaucratic and political ills. They were used to rectify the party, promote discipline and unity, purify the state bureaucracy, and prevent the entrenchment of elite-mass cleavages. Third, campaigns were used as populist instruments of permanent revolution to "smash" the party/state apparatus.[12]

The post-Mao leadership formally repudiated all three functions of the mass campaign. Mao's culminating effort at smashing the party/state during the Cultural Revolution had such force and consequence that the post-Mao elite, victims of the process, formally abandoned mobilizational politics and fostered the process of institution building.[13] The new leaders replaced mass campaigns and permanent revolution with routinization and modernization as the primary means and ends of state power in post-Mao China. Radicalism gave way to "systems engineering," with all its attendant overtones of incremental manipulation of countless social, political, and economic levers. And populist, revolutionary methods of mass participation gave way to imperfect electoral mechanisms, expanded public debates and channels for political expression and influence, glorification of the rule of law, and a shrinking monopoly of party power. In short, the post-Mao elite fundamentally redefined its historical mission, abandoning the rapid achievement of revolutionary ends by means of class struggle in favor of the steady development of the "primary stage of socialism" and the construction of a "socialist spiritual civ-

[10] Dittmer (fn. 1), 6. For other discussions of mobilization, see Squires Meany (fn. 7), and Walder (fn. 9), 113–22.

[11] Charles P. Cell, *Revolution at Work: Mobilization Campaigns in China* (New York: Academic Press, 1977), 106–7.

[12] Harry Harding, *Organizing China: The Problem of Bureaucracy, 1949–1976* (Stanford: Stanford University Press, 1981), 331–33; Dittmer (fn. 1), 6–8.

[13] Squires Meany (fn. 7); Tang Tsou (fn. 1).

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ilization."[14] In so doing, the elite brought the Maoist revolutionary phase to an end.

The question is whether the end of the revolutionary phase meant the end of party-led mobilization, as was the case in the Soviet Union.[15] Despite the formal repudiation of mass movements, only the third type of mobilization campaign disappeared entirely in the 1980s. Mobilization was still employed to achieve political goals, such as party rectification (1983–1986), eliminating spiritual pollution (1983), and countering bourgeois liberalization (1987 and 1989). It was also used to achieve substantive goals, such as obligatory tree planting, electoral reform, and controlling economic crime.[16] Nowhere has the use of mobilization been more sustained or controversial, however, than in the arena of family planning.

A. The "One-Child-per-Couple" Mobilization Campaign, 1979–1983

The effort to limit couples to only one child began just as China's new leadership was repudiating Maoist campaign methods. There is no shared, unambiguous definition of a mass campaign or its precise form, but the family planning campaign implemented between 1979 and 1983 fulfilled and exceeded every basic requirement. Two studies of campaigns and their dynamics, Gordon Bennett's *Yundong* and Charles Cell's *Revolution at Work*, provide working definitions. Bennett defined the campaign as "a government-sponsored effort to storm and eventually overwhelm strong but vulnerable barriers to the progress of socialism through intensive mass mobilization of active personal commitment."[17] Cell relied on the definition provided by a 1959 article in *Hongqi* (Red Flag), which described the campaign as an "organized mobilization of collective action aimed at transforming thought patterns, class/power relationships and/or economic institutions and productivity." More simply, he noted that "all campaigns involve an increased intensity of activity

[14] Zhao Ziyang, "Advance Along the Road of Socialism with Chinese Characteristics," *Beijing Review* 45, November 9–15, 1987, pp. I–XXVII.

[15] In the Chinese case, the communiqué of the Third Plenum of the Eleventh Central Committee in December 1978 and the resolution on CCP history adopted in June 1981 marked the end of the revolutionary phase. The parallel moment in Soviet history was the party program adopted at the 22nd Party Congress in October 1961. On the Soviet case, see Lowenthal (fn. 2).

[16] Lester Ross, "Obligatory Tree Planting: The Role of Campaigns in Policy Implementation in Post-Mao China," and Barrett L. McCormick, "Leninist Implementation: The Election Campaign," both in David M. Lampton, ed., *Policy Implementation in Post-Mao China* (Berkeley: University of California Press, 1987), 225–52 and 383–413.

[17] Gordon A. Bennett, *Yundong: Mass Campaigns in Chinese Communist Leadership* (Berkeley, CA: Center for Chinese Studies, 1976), 18.

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beyond what is expected in regular work and living routines"; "what may not start out as a campaign may in due course become one, or vice versa."[18]

Both definitions suggest two irreducible characteristics of the mass campaign. First, its substantive goal is to advance socialism by targeting a particular obstacle and/or by promoting a particular ideal. Second, the procedural requirements for a mass campaign are that it be organized and launched from above, led by the party and mass organizations, and that the masses be mobilized beyond their normal routines. The one-child campaign met all of these criteria.

First, with the immediate task of building socialism redefined to be the achievement of the four modernizations, promoting the policy of one child per couple not only explicitly aided economic goals; it also targeted old habits and customs that had been variously described as decadent or feudal, and that stood as barriers to socialist development. For example, such traditional sayings as "men are superior to women" and "the more children, the more happiness" became objects of condemnation in propaganda campaigns, as did the associated behavior of female infanticide.[19] The policy of promoting only one child per couple and denouncing the traditional preference for sons was tantamount to launching a narrowly defined cultural revolution.

Second, beginning in 1979, the call for the one-child family led to nationwide mobilization. Hua Guofeng set forth the impossible goal of reducing the population growth rate to five per thousand by 1985; Chen Muhua, head of the State Council Leading Group for Family Planning, called for a mass campaign to achieve this target.[20] Provincial leaders responded by holding mobilization meetings attended by representatives of all party, government, and mass organizations; recruiting family planning activists and propagandists from various units; sending medical and propaganda teams into the countryside to promote birth control; and publishing articles glorifying the one-child family.[21]

Subsequently, implementation of the one-child program involved the use of standard campaign methods. Both Bennett and Cell listed specific

[18] Cell (fn. 11), 7.

[19] *Foreign Broadcast Information Service, Daily Report—China* [hereafter cited as *FBIS*], February 15, 1980, p. L14; *Renmin Ribao*, September 25, 1980, p. 1.

[20] *FBIS* (Supplement No. 15), July 2, 1979, p. 19; Sichuan Provincial Service, December 17, 1979, in *FBIS*, December 18, 1979, p. Q3; Li Xiuzhen, "Dangqian jihua shengyu gongzuode xingshi he renwu" [The current situation and tasks in family planning work], *Renkou Yanjiu* 1 (1980), 3.

[21] Tyrene White, "Population Policy and Rural Reform in China, 1977–1984: Policy Implementation and Interdependency at the Local Level" (Ph.D. diss., Ohio State University, 1985), chap. 3.

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indicators of campaign activity, with Cell providing the most exhaustive list.[22] Three types of indicators emerge from his classification: first, *informational* indicators (newspaper articles, slogans, mobilization meetings, targets for criticism, stories for emulation, pamphlets, signs, banners, exhibits); second, *organizational* indicators (sending in outside cadres, creating work teams, reallocation of resources, curtailment of other programs or activities, disruption of work routines or reorganization of the unit); third, *mass participation* indicators (letter writing; participating after regular work hours; mobilization of minority, youth, or other special groups and organizations; study groups; struggle and/or criticism sessions; local, regional and national rallies).

Virtually all of the above tools were used between 1979 and 1984 to implement the one-child policy.[23] Telephone conferences and mobilization meetings were employed to energize cadres and to disseminate campaign targets. Special medical teams were sent to perform sterilizations and abortions, or to insert intrauterine devices. Propagandists filled newspapers with model stories and educational editorials, and cadres who violated the new policy were used as negative models for public discussion. In rural areas, where the greatest resistance was encountered, local party cadres held as many as nine or ten mobilization meetings per year in one locality.[24] Normative and material incentives, such as glorification meetings and cash rewards, were used to encourage compliance. Those who resisted, however, encountered coercive measures. In the most extreme cases, women were forcibly taken to clinics for abortions or other procedures; more typical, however, was the practice of making women attend endless meetings without pay, or subjecting couples to propaganda and harassment in their homes.[25]

Although the struggle sessions against offenders did not take on the intensity of those against political targets during the Maoist period, individuals, and wayward cadres in particular, were isolated and criticized publicly as examples. Their punishment frequently went beyond eco-

[22] Bennett (fn. 17), 38–74; Cell (fn. 11), 92–110.

[23] The primary literature on this period is vast. For analyses and descriptions, see Tyrene White, "Implementing the 'One-Child-per-Couple' Population Program in Rural China: National Goals and Local Politics," in Lampton, ed. (fn. 16), 284–317; Mosher (fn. 4), 224–61; John S. Aird, "Coercion in Family Planning: Causes, Methods and Consequences," in U.S. Congress, Joint Economic Committee, *China's Economy Looks toward the Year 2000*, vol. 1, *The Four Modernizations* (Washington, DC: Government Printing Office, 1986), 184–221.

[24] Yuan Fang and Gu Shengzu, "Nongye shengchan zerenzhi qianhoude jihua shengyu guanli tizhide bijiao fenxi" [A comparative analysis of the managerial system of family planning work before and after the agricultural responsibility system], *Shehuixue yu shehui diaocha* 2 (1987), 7–16.

[25] On these practices, see Aird (fn. 23) and Mosher (fn. 4).

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nomic sanctions, even to the point of obligatory sterilization.[26] Conversely, cadre mobilization and emulation efforts were taken very seriously. In one Hubei village, the local "women's leader" (a female cadre in charge of women's affairs and family planning in each of China's production brigades and teams) attributed her brigade's exemplary record on birth control to the example set by the local cadres. She and the brigade's eight team-level women's leaders had undergone "voluntary" sterilizations when the one-child campaign began.[27] Thus did they demonstrate their willingness to "take the lead" in family planning and set a good example for the masses.

In short, though the scope of the family planning campaign did not rival the radical political campaigns of the Maoist era, it was a classic mobilization drive of major proportions. Over time, however, pressures to bring campaign tactics in line with the requirements of an ongoing process of rural reform gave rise to a variant form of mobilization politics.

B. The Politics of Institutionalized Mobilization, 1984–1989

Although mobilization for family planning was continuous in the early 1980s, the environment for implementing the one-child policy had changed dramatically by the end of the Sixth Five-Year Plan in 1985. At the time the campaign was launched in 1979, the regime of Hua Guofeng was fostering a mobilizational style of politics that had direct antecedents in the Maoist era. By the end of that year, however, political campaigns had been rejected as tools of policy implementation, and the reform coalition of Deng Xiaoping was rapidly consolidating power. As a result, the traditional language of mass mobilization was softened even while the demand for a one-child norm became more insistent.

By September 1980, cadres were exhorted not to rely on coercion to enforce the policy; they were told to make family planning a part of their routine work. The one-child campaign continued, however, with the Central Committee and the Communist Youth League issuing an unprecedented "Open Letter" to all party and youth league members urging them to "take the lead" in having only one child.[28] In the cities, effective enforcement was made possible by the close surveillance of

[26] Beijing City Service, April 12, 1980, in *FBIS*, April 21, 1980, p. R1; *Renmin Ribao*, April 11, 1980, p. 4; *Kyodo*, June 26, 1980, in *FBIS*, June 27, 1980, p. Q1.

[27] Interview file, by the author, May 23, 1982, Huashan commune. This interview was conducted as part of two periods of rural fieldwork in China (February–December 1982 and September 1983–June 1984). The commune (now reclassified a rural town) is situated to the northeast of Wuhan municipality, Hubei Province. Additional information on the field site and interview procedures may be found in White (fn. 21).

[28] *Renmin Ribao*, September 25, 1980, p. 1.

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women in the workplace and in neighborhoods, but rural enforcement posed enormous obstacles. Not only did the peasants strongly resist the one-child limit, but the pattern of rural organization underwent radical changes between 1980 and 1983 as the defining institutions of the Maoist era were dismantled. Household farming on collectively owned land replaced collectivized agriculture, separate organs of township government and economic management supplanted the people's commune, and the revival of free markets broke the party's absolute grip on rural income.

These structural changes diminished the political and economic power of rural cadres and substantially reduced the dependency and vulnerability of the peasantry. The changes also weakened a vital component of the local enforcement structure for family planning—grassroots women's leaders in production brigades and teams.[29] As local activists, these women had provided the crucial link between the party hierarchy and rural women of child-bearing age by monitoring pregnancies and "mobilizing" for compliance; they now found that the political rewards of cadre service did not outweigh the material rewards of household production. Like other laborers, they were allotted plots of land and were obliged to fulfill their household responsibility contracts. At the same time, pressures to reduce the number of "nonproductive" cadres deprived them of the small administrative subsidy once provided by the brigade. Finally, in the altered political climate of the 1980s, women's leaders found themselves not just deprived of the status once implied in cadre service, but in danger of assault or abuse for their role in the family planning campaign.[30]

Although the situation stabilized by 1984, these changes provoked a sense of panic about family planning work during 1982 and 1983, as officials feared that grassroots organizational disarray or paralysis was undercutting the one-child campaign. To compensate for rising birth rates and organizational deficiencies, a sterilization campaign had been launched in late 1982 that continued sporadically through 1983 and 1984. It was specifically directed at couples who were under the age of forty and already had two or more children, and it was designed to reduce the incidence of third or additional births.[31] The full dimensions of the mo-

[29] White (fn. 23).

[30] One report from a county in Jiangsu Province indicated that there had been 381 "incidents of revenge" in twelve towns and townships in an eighteen-month period, of which 32 percent were related to family planning. See Su Suining, "There Are Many Causes of Strained Relations between Cadres and Masses in the Rural Areas," *Nongmin Ribao*, September 26, 1988, p. 1, in *FBIS*, October 7, 1988, p. 13.

[31] *Xinhua*, November 1, 1982, in *FBIS*, November 3, 1982, p. K20; Qian Xinzhong, "Nuli kaichuang jihua shengyu xuanchuan jiaoyu gongzuo xin jumian" [Make great efforts to initiate the new phase of family planning propaganda and education work], *Renkouxue Kan*

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bilization remain unclear, but by the end of February 1983, nearly nine million "birth control operations" had been performed nationally, a figure 1.6 times the total for all of 1982.[32] In Hubei Province alone, one million sterilizations occurred over the course of 1983.[33]

By the end of 1983, other elite priorities began to overtake the one-child campaign. A party rectification campaign was launched, a central feature of which was to correct the bad "work style" of many party members and to improve party-mass relations. In addition, the reformers were poised to push through new rural reforms at the end of 1983 that would commercialize the rural economy and break up the party's monopoly of supply and distribution. At the same time, the township governments that had replaced people's communes were placed on a tighter fiscal leash, with expenditures for basic activities like family planning set in an annual fixed budget. In this shifting political, economic, and institutional context, a new central document on family planning was issued in 1984. Central Document 7 departed from its predecessors by allowing some restricted exceptions to the one-child limit, exceptions that applied to about 5 percent of all couples of child-bearing age among the majority Han population (rules for minorities were slightly less strict). More importantly, the document repudiated the use of coercion to enforce the one-child limit, stressing instead the need for routine and patient work in order to gain compliance.[34] Subsequently, family planning was declared to be a fundamental state policy: the government stressed the obligation of Chinese citizens to engage in family planning, and made efforts to build an organizational structure for routine administration. Yet the gap between official family planning targets and the capacity of the formal party/state apparatus to reach them undermined efforts to regularize grassroots implementation. Instead, the implementation process settled unstably into a pattern of *institutionalized mobilization*.

Institutionalized mobilization is a variant form of implementation, which involves periodic, functionally defined mobilization efforts that (1) temporarily intensify coercive and normative incentives; (2) vary from region to region in timing, intensity, and scope; (3) last for limited, predictable periods of time (often specified at the outset); (4) have as their

1 (1983), 9; *Xinhua*, January 10, 1983, in *FBIS*, January 13, 1983, pp. K13–14; Beijing Domestic Service, January 27, 1983, in *FBIS*, March 3, 1983, p. K11; Shi Chengli, "Wo guo jihua shengyu gongzuode fenqi" [Analysis of our country's family planning work], *Xibei Renkou* 1 (1988), 31; interview conducted by the author, June 8, 1984, Family Planning Commission, Hubei Province.

[32] Shi (fn. 31), 31.

[33] Interview (fn. 31).

[34] *Jihua Shengyu Ban, Jiankang Bao*, March 9, 1984.

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primary goal behavioral control or "practical results," not attitudinal or cultural change; (5) have a diminished scope of mass participation in favor of narrow mobilizations of the target population; and (6) utilize extensive propaganda to shape public sentiment, but discourage disruptive mobilizational activities beyond the target population in order to insulate the project from economic production and other reform initiatives.

Several aspects of the family planning campaign illustrate the pattern of institutionalized mobilization. The family planning bureaucracy and delivery network has been strengthened, funding and personnel have increased, routine procedures have been developed to administer the work and coordinate with other relevant departments (for example, public health and civil affairs), and supplemental regulations have been drafted to clarify policy. Family planning work has been thoroughly professionalized; demographers, sociologists, and other social scientists are involved in the policy-making and implementation processes, and full-time family planning workers are trained and placed at the local level. National meetings are held regularly in order to assess ongoing work. Grassroots cadres have forms, procedures, and timetables for gathering data on local demographic trends. New loopholes in the control system, such as the problem of unmonitored peasants who migrate temporarily to the cities, are closed as new procedures are developed—in this case by requiring local commercial bureaus and offices to withhold enterprise licenses from individuals who violate family planning regulations.[35]

None of these developments has obviated the need for mobilizational methods, however. The strict one-child limit has been progressively relaxed since 1984 in order to make the policy "acceptable to the peasants."[36] As a result, rural couples whose first-born is a daughter are automatically eligible for a second child.[37] This relaxation has partially accommodated the demand for male offspring that frustrated earlier enforcement efforts, but it has not put an end to peasant resistance. Couples with one son or two daughters often bear additional children; the required four-year interval between the first and second birth is routinely ignored; and village leaders conspire with relatives and friends to conceal "excess" births from higher authorities.

[35] De Ming, "China's Population Situation Remains Grim," *Liaowang Overseas Edition* 17 (April 25, 1988), 10–11, in *FBIS*, May 11, 1988, p. 28.

[36] *China Daily*, April 19, 1988, p. 1.

[37] *Zhejiang Ribao*, September 27, 1987, in *FBIS*, October 13, 1987, pp. 31–32; *China Daily*, July 30, 1987, p. 3; Zhao Yugui, "Zhongshi liudong renkoude jihua shengyu guanli" [Pay attention to the management of family planning work for the floating population], *Renkou yu Jingji* 2 (1988), 5.

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Continuing resistance to a one- or two-child limit is not the only motive for mobilization. Because the targeted age cohort is constantly replenishing itself, because today's compliant couples may become tomorrow's problem, and because overworked rural leaders find it convenient to neglect family planning, only periodic mobilization can indoctrinate young couples and emphasize the determination of the state to prevail. Family planning propaganda and education campaigns occur predictably in the summer and winter; the campaigns are coordinated with agricultural slack seasons, the corresponding national work conferences that review local and national statistics, and the Chinese New Year (a time for spousal reunions and marriages). They still require the temporary mobilization of propagandists, family planning workers, and medical personnel for grassroots work. Propaganda activity and intensive indoctrination have ceased to be the centerpiece of the campaign, however. Instead, the focus is on the achievement of practical results by carrying out medical procedures such as sterilizations, abortions, and IUD insertions on the spot.[38] For example, in the fall of 1987 Zhejiang Province launched a "family planning publicity and technical service campaign," in which "areas lagging behind" in family planning work were urged to "strive for a marked improvement during the campaign."[39] Similarly, a circular prepared for family planning month in Yunnan (January 1987) stressed the need to "mobilize the masses to vigorously and conscientiously implement the measures for birth control and remedial measures" (that is, abortions).[40]

Although national officials like Peng Peiyun, head of the State Family Planning Commission, stressed that cadres "should not neglect regular work and then merely rely on temporary mobilization work,"[41] local enforcement still revolves around centrally disseminated targets and quotas that trigger periodic mobilizations and "shock drives" at the local level. A classic example of this pattern is the May 1985 campaign that was waged in a suburban village outside Xiamen municipality, Fujian Province, and reported by Huang Shu-min.[42] In May 1985, the village leaders suddenly announced a strict new policy on having a second child and ordered all women of child-bearing age to report for examinations to detect pregnancies. The decision was made summarily and backed up

[38] *Zhejiang Ribao*, July 25, 1986, p. 1.

[39] *Zhejiang Ribao*, September 27, 1987, in *FBIS*, October 13, 1987, 31–32.

[40] Yunnan Provincial Service, January 5, 1987, in *FBIS*, January 7, 1987, p. Q2.

[41] Yang Chaoling and Li Qin, "Peng Peiyun, Minister of the State Family Planning Commission, on China's Family Planning Situation and Policy," *Liaowang Overseas Edition* 17 (April 1988), 9–10, in *FBIS*, May 2, 1988, p. 35.

[42] Huang Shu-min, *The Spiral Road: Change in a Chinese Communist Village through the Eyes of a Communist Party Leader* (Boulder, CO: Westview Press, 1989), 175–85.

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by the terse announcement that those who failed to comply would be cut off from village business activities. Despite the reforms, this threat was extremely potent, since village approval for permits and loans smoothed the way for many of the private economic activities that produced the bulk of income for many village households. No educational meetings were held, no propaganda announcements were made. On the appointed day, however, a special work team from the township arrived in the village to consult with the village party secretary and to transport pregnant women to the township hospital. The work team was one of several sent out by the township, each assigned to cover a group of villages.

Although the events in the village were straightforward, they do not reveal how the mobilization process made its way to the village level or explain the timing of the campaign. Media reports from the period reveal that, in standard campaign fashion, the impetus came from higher levels of government. During 1984 and 1985, most provinces responded to new central guidelines on family planning by adopting new or modified regulations at meetings of their provincial people's congresses. Because 1985 was the final year of the Sixth Five-Year Plan, extra pressure was placed on all provinces and localities to meet the targets of the plan. The approach taken by each province varied, however; the timing tended to coincide with the convening of the provincial people's congress, the official legislative body of the province. In Fujian, the Third Session of the Sixth People's Congress was held in late April and early May, at which time a special forum on family planning was held. According to a radio report on the meeting, the delegates were told that they "must do a good job on work in May and June, a key period on which the success of the population control tasks in the whole year depends."[43] Once this provincial directive was translated into specific quotas for each county and township, it resulted in the deliberate and methodical village-level mobilization.

In 1987, Sichuan provincial authorities launched a summer "propaganda, inspection and implementation drive";[44] in Hainan, regional officials organized a springtime "shock drive." Cadres were instructed to

> summon up the greatest resolve to organize the family planning shock drive, and achieve unified leadership, arrangements, and action. . . . It is necessary to focus on remedial measures regarding pregnancies not covered by the plan, and also do a good job in carrying out ligation surgery after the birth of a second child and inserting an intrauterine device after the birth of a first.[45]

[43] Fujian Provincial Service, May 3, 1985, in *FBIS*, May 9, 1985, p. O1.
[44] Sichuan Provincial Service, June 11, 1987, in *FBIS*, June 12, 1987, p. Q1.
[45] Hainan Island Service, May 1, 1987, in *FBIS*, May 4, 1987, p. P1.

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Two weeks later, regional officials reported that, between April 27 and May 9, more than 8,700 procedures, including 4,244 tubal ligations, had been performed.[46] After criticizing areas that were still lagging behind, they called for a "new high tide," and issued specific instructions:

> Prior to the end of June, all cities and counties must accomplish over 50 percent of the special annual family planning tasks set by the administrative regional authorities.
>
> Second, in bringing about the high tide . . . all cities and counties must regard the task of collecting fees imposed on those who have exceeded the limit to the number of births as an important task, and ensure the implementation of measures for sterilization through the promotion of the task of collecting fees imposed on those who have exceeded the limit to the number of births.
>
> Third, public health departments . . . must send a number of medical personnel with high political and professional standards to serve people undergoing sterilization operations.[47]

When Hainan officials met in February 1988 to review the previous year's work and plan for the future, their report captured precisely the effort to fuse regular work with campaign tactics:

> We must establish and put on a sound basis family planning laws, rules and regulations, and beef up the family planning organs and personnel. Shock family planning drives must be regularly organized and combined in an organic way, with the emphasis on practical results.[48]

Weak grassroots organization also makes mobilization a necessity. Professionals and full-time family planning workers may staff family planning organs at or above the county level, and sometimes at the township (previously the commune) level; below the township level, family planning, if done at all, is conducted by party cadres and women's leaders—that is, local political leaders and activists.[49] After 1984, when structural reform of the communes was completed, all township governments were supposed to be staffed by a full-time cadre for public health and family planning. In many areas, however, townships have refused to pay such individuals out of collective revenues, but the state has not put them on its payroll either. As a result, many townships have no family planning cadre, or one that is poorly paid.[50] At the village (brigade) and small

[46] Ibid.; Hainan Island Service, May 18, 1987, in *FBIS*, May 20, 1987, p. P2.

[47] Ibid., pp. P2–3.

[48] Hainan Island Service, February 17, 1988, in *FBIS*, February 18, 1988, p. 21.

[49] *Henan Nianjian, 1985* [Yearbook of Henan Province, 1985] (1986), 597. By 1987, Qinghai Province reported that 30% of all townships and towns had no family planning organs. Qinghai Provincial Service, February 20, 1987, in *FBIS*, February 27, 1987, p. T2. See also Liaoning Provincial Service, February 28, 1988, in *FBIS*, March 3, 1988, p. 38.

[50] Qinghai Provincial Service, February 20, 1987, in *FBIS*, February 27, 1987, p. T2. See

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group (team) levels, family planning came under the purview of the local women's leader, but team-level cadres slowly disappeared after 1984 and village leaders often refused to employ a family planning cadre, leaving the job of enforcing local birth quotas to unpaid representatives of the Women's Association. Even where cadres are in place, however, many of them are villagers first and cadres second where family planning is concerned. They will respond to signals from higher authorities, but professionalization does not reach into the village. In short, functional specialization deteriorates rapidly at the township level and below, and neither the collective nor the state has the funds to remedy the problem entirely. Instead, family planning associations have been organized down to the village level in the hope that locally mobilized and functionally defined mass organizations will contribute to the stabilization of the work.[51] Thus, at the grassroots, politically weak, poorly skilled, and underpaid women's leaders, activists, and association members rely on local party mobilization in order to cope with recalcitrant villagers. In 1988, this dependency on the party apparatus led central leaders specifically to exempt family planning from ongoing efforts to reduce party interference in routine government work.[52]

Finally, although the intensity of family planning propaganda has declined since 1985, family planning work has constantly been linked to other political, ideological, or morality movements, including party rectification, the antibourgeois liberalization campaign, and the call to build a socialist spiritual civilization. The linkage is designed to reinforce the collective value and larger moral purpose of individual decisions to comply voluntarily with family planning goals, and to associate policy violators with politically suspect, morally bankrupt, or criminally inclined elements.

In sum, implementation of the one-child policy continues to meet the two primary characteristics of a mobilization campaign—organized, routine-altering activity for the purpose of defeating a barrier to socialist development. Since 1984, however, the predictability, decentralization, and routinization of the mobilization process has transformed the campaign into a mobilizational instrument of some precision. While the Communist Party is unwilling to alienate the critical pro-reform peasant

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also Liaoning Provincial Service, February 28, 1988, in *FBIS*, March 3, 1988, p. 38. In some cases, "family planning cadres" were individuals who held more than one work portfolio simultaneously. See Shuai Zepeng, "Jihua shengyu ganbu duiwude guanli jidai jiaqiang" [Management of family planning cadre ranks in urgent need of strengthening], *Renkou Yanjiu* 4 (July 1988), 59. *Tianjin Ribao*, March 13, 1990, in *FBIS*, April 11, 1990, pp. 45–46.

[51] *FBIS*, February 19, 1988, p. 23.

[52] *Xinhua*, January 20, 1988, in *FBIS*, January 21, 1988, p. 6.

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constituency by demanding strict enforcement of a one-child limit, it is equally unwilling to channel more state funds into the development of a rural family planning bureaucracy *or* to let resistance to birth control undermine its economic goals. The routine bureaucratic process has therefore been joined to the party's grassroots mobilizational tradition to yield a specific form of postrevolutionary mobilization. This hybrid is not simply a halfway measure between the artificially constructed polarities of revolutionary mobilization and rational-legal forms of enforcement, however. Instead, it is a new variation on the single political theme of Communist Party rule in China. The context for campaign implementation has changed, but mobilizational impulses and the institutional arrangements that produce them have endured.

C. The Limits of Institutionalized Mobilization

By early 1990, it was clear that China's family planning program was in jeopardy. The State Statistical Bureau reported steady population growth rates of about 1.4 percent between 1987 and 1989—rates higher than planned, but within an acceptable range. Surveys conducted under the auspices of the State Family Planning Commission, however, were showing growth rates as high as 1.6 percent; by January 1990 Peng Pei-yun, the head of the commission, confirmed the existence of a gap of 30 percent between the official figures and the estimates of the commission.[53] Clearly, the state's efforts to achieve an average fertility level of about 1.7 children per couple were failing.

At first glance, this failure may appear to confirm Lowenthal's thesis. One might argue that the general trend in China is toward demobilization, and that the lingering presence of the one-child campaign reflects nothing more than the extraordinary nature of China's population dilemma. The regime's inability to sustain effective mobilizational efforts for more than a few years after the postrevolutionary transition merely confirms the long-term causal relationship between the modernization process and demobilization.

The flaw in this argument is that the failed effort cannot be equated with the end of mobilizational politics. The overall success or failure of a campaign never provided grounds for bringing the mobilizational character of the Maoist regime into question. Mao's two most famous efforts, the Great Leap Forward and the Cultural Revolution, were both spectacular failures if judged by his own initial goals. The Great Leap

[53] Qi Bangmi, "The Alarm Bell of Population Tolls Again," *Ban Yue Tan* 23 (December 1988), 15–16, in *FBIS*, January 18, 1989, p. 25; *Xinhua*, December 13, 1989, in *FBIS*, January 5, 1989, p. 5.

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did not boost agricultural yields or accelerate China's march to communism, and the Cultural Revolution did not prevent the routinization of party rule. Yet the mass campaign was a defining characteristic of the Maoist period. In the post-Mao era, rising birth rates alone do not imply that campaigns are no longer employed. Campaigns continue to be the most effective means by which party leaders concentrate effort on specific tasks and overcome bureaucratic inertia and grassroots resistance. In addition, they fill an important gap in the state's capacities below the county level by prompting township- and village-level cadres to behave in ways that reflect the priorities of their superiors. By setting the goals and the time frame for achieving specific tasks, and by linking cadre evaluations to the fulfillment of those tasks, the party can increase the probability of effective grassroots implementation.

Several other factors provide a better explanation for the failure of institutionalized mobilization to achieve the ambitious goals of the central elite. To begin with, the goals themselves remain extremely ambitious, despite relaxations in the one-child rule. According to current policy, all urban couples are limited to one child, with very few exceptions. In the countryside, all couples whose first child is a girl are now eligible to have a second child after an interval of about four years; the same goes for couples who fit a variety of other categories (for example, those whose first child is seriously handicapped, or a husband who breaks tradition by moving into his wife's family home). No one is eligible for a third child, with the exception of certain small nationality populations living in sparsely populated areas. These guidelines may appear lenient by the impossibly strict rules of the early 1980s, but in China's agricultural society they are considered extremely strict and are difficult to enforce, even with campaign methods.

Moreover, for mobilization to be successfully deployed, at least one of three prerequisites must be met. The first concerns incentives. In earlier efforts to engineer change in the countryside, success depended on being able to offer material as well as normative incentives to a mobilizable constituency.[54] Great efforts were made to do just that in the early 1980s, when one-child couples received preferential health care, infant and child subsidies, extra plots of land, and other material rewards.[55] By 1984, however, as the one-child policy settled into a fundamental state policy, the rationale for special rewards for compliance began to erode, as did

[54] Dittmer (fn. 1), 39–43 and 237–38; Vivienne Shue, *Peasant China in Transition: The Dynamics of Development toward Socialism, 1949–1956* (Berkeley: University of California Press, 1980), 326–27.

[55] White (fn. 23), 284–317.

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the local resources to provide them. In addition, pressures to reduce the expenses of township government led to cuts in family planning subsidies and bonuses.[56] As a result, by the mid-1980s cadres and bureaucrats urged family planning on grounds of delayed material gratification, a line that did little to offset preferences for multiple sons as the path to short-term happiness and long-term wealth and security.

Second, sustained and successful mobilization requires organizational stability.[57] Where turnover among local leaders or a target population is high, patterns of mobilization, study, and enforcement are constantly disrupted by personnel change. Although China's rural leadership has remained relatively stable, organizational changes, retirements, entrepreneurial opportunities, and elections have all contributed to a changing composition of the grassroots leadership. More importantly, however, the rural population—for the first time since the 1950s—now enjoys opportunities for mobility that complicate efforts to enforce family planning through either routine work or mobilization. The reported childbearing explosion among the "floating population" of fifty million has become the biggest headache for family planning officials, who refer to this group as an "excess birth guerrilla corps" and "excess birth floating villages."[58] The proposed solution—demanding that the urban commerce bureaus verify compliance with family planning before issuing local commercial licenses to migrant peasants—is no help, since commerce bureau officials have neither the time, inclination, or incentive to become adjunct family planning officials.[59]

Third, and most importantly, in the absence of compelling material rewards and organizational stability, mobilization requires a disciplined organization for enforcement—precisely the area in which communist parties traditionally excel. In this case, however, many cadres (native villagers themselves) have personally opposed and violated the one-child policy from the start. Beijing's disavowal of coercion and rigidly uniform implementation has simply given them greater leeway to interpret guidelines in ways that suit local preferences. Moreover, despite periodic nation-wide or localized mobilizations, the relatively lax political environment and stress on economic performance led many to report false statistics for family planning work in order to increase bonuses, avoid

[56] *Renmin Ribao*, June 12, 1984, carries the original text of Central Document 1 (1984). For a translation, see *China Quarterly* 101 (March 1985): 132–42.

[57] Walder (fn. 9), 114–20.

[58] Guo Xiao, "The 'Population Explosion' Is Drawing Near," *Jingji Ribao*, January 10, 1989, in *FBIS*, February 3, 1989, p. 51.

[59] *China Daily*, July 30, 1987, p. 3; Yunnan Provincial Service, January 3, 1988, in *FBIS*, January 5, 1988, p. 44; *Xinhua*, January 26, 1988, in *FBIS*, January 28, 1988, pp. 16–17; *Renmin Ribao*, June 4, 1985, p. 3.

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sanctions, meet the terms of their responsibility contracts, and reduce per capita tax levies.[60] Other cadres devised a middle course that linked nominal enforcement to personal and collective self-interest. Rather than try to prevent excess births, they used them as a fundraising tool, collecting penalties for infractions and investing them in local projects. In one report, a village party secretary was quoted as saying that in "four or five days' time," the village had collected 10,000 yuan, "just enough to pave a village road." The reporter condemned this practice of encouraging "fundraising births" as an "evil embryo" (*guaitai*) that should be terminated, but the problem was not simply one of cadre deviance at the village level. In some areas, the money-starved family planning bureaucracy was dependent on the collection of fines to pay salaries and bonuses.[61] This preoccupation with fundraising went even further: mobilization campaigns intended to prevent excess births were perverted into fundraising campaigns, with local cadres assigned targets for the collection of fines, and with campaigns timed to occur when peasants were flush with cash.[62] Paradoxically, campaigns thus became the vehicle by which routine bureaucratic work could be sustained, giving the bureaucrats themselves a direct interest in perpetuating mobilizational methods.

In short, during the 1980s the requirements for effective mobilization were undermined by the successful implementation of other elite goals. Deepening problems with routine implementation and enforcement, however, elicited new demands for mobilization from unusual sources. In family planning, these demands did not come from conservatives threatened by the reforms, but from reform-minded experts and observers who feared the economic impact of population growth.

In 1988 and 1989 their anxieties broke to the surface. The revelation, in late 1988, that the 1987 birth rate was significantly higher than originally reported by the State Statistical Bureau, that third or additional births continued to account for as much as 17 percent of annual births, and that urban couples were also pushing for additional births, caused growing apprehension over inadequate birth control efforts and the potential "tragedy" of failing to control population growth.[63] In Hebei,

[60] Qu Yibin, "Woguo renkou chushenglu mingxian huishengde yuanyin ji duice tantao," [Reasons for our country's obvious increase in birth rate and inquiry into countermeasures], *Renkou Yanjiu* 2 (March 1988), pp. 54–55; Zhong Cheng, "Delegates and Members Show Concern for Family Planning," *Zhongguo Xinwen She*, April 11, 1988, in *FBIS*, April 13, 1988, p. 33.

[61] Jiang Su and Yang Shounian, " 'Jizi shengyu' buzu qu" [Do not permit the pursuit of 'fundraising births'], *Nongcun Gongzuo Tongxun* 4 (1988), 25.

[62] Interview with former township-level family planning cadre, March 1, 1990.

[63] Henan Provincial Service, January 21, 1989, in *FBIS*, January 25, 1989, p. 53.

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these concerns led to the creation of an extraordinary coordinating body, the "family planning leading small group," to increase province-wide attention to family planning.[64] Such groups, which were pervasive in the 1970s and early 1980s, had been replaced in the mid-1980s by regular state organs and local family planning commissions. What was most telling, however, was an escalating debate between what might be called the state family planning establishment, on the one hand, and opposition professionals, social scientists, and party officials, on the other. The latter group argued that relaxation of the one-child policy was a mistake, and held policy makers and "personnel changes" responsible.[65] After this charge appeared in *Guangming Ribao* in March 1988, officials of the State Family Planning Commission felt obliged to respond at their national meeting shortly thereafter. *China Daily*, for example, reported:

> The policy that allows rural couples with only one daughter to have one more child after a certain period has proved reasonable and is not the reason for the rapid growth of China's population in recent years, it was agreed at a national meeting of the State Family Planning Commission. . . .[66]

Around the same time, an article in *Renmin Ribao* pointed out that the desire for a rapid push for zero or negative population growth must be carefully balanced against the problem of an aging population.[67]

The debate intensified in 1989, with *Jingji Ribao* picking up the call for a stricter birth control policy. Two articles, the first on January 10 and the second on January 24, stressed the impending population crises and asked, "How many centuries must it take before people can be awakened?"[68] The second, arguing that a "human wave is washing over China," pointed to the 1980 Marriage Law, the stimulating effect of the agricultural responsibility system on rural child-bearing preferences, and the relaxation of policy after 1984 as three key "policy faults."[69] It is the final paragraphs, however, that reveal the changed rationale for mobilization. Dismissing "gloomy and feeble propaganda and education" as useless in an environment where "people no longer fear punishment," the author blasted the family planning bureaucracy and "policy-makers" for their timidity; he concluded:

[64] *Hebei Ribao*, September 16, 1988, p. 1, in *FBIS*, October 12, 1988, p. 64.

[65] Liu Jingzhi, "Experts Concerned Are Not Optimistic about China's Population Situation, and Think that Interference by Officials Is an Important Reason Why Birth Rate Has Risen Again," *Guangming Ribao*, March 6, 1988, p. 2., in *FBIS*, March 18, 1988, pp. 14–15.

[66] *China Daily*, April 19, 1988, p. 1.

[67] Wu Canping and Du Yajun, "Several Questions on the Chinese Population," April 15, 1988, in *FBIS*, April 19, 1988, pp. 48–49.

[68] The quote is from Xie Zhenjiang, "There Is No Route of Retreat," *Jingji Ribao*, January 24, 1989, in *FBIS*, February 15, 1989, p. 35; see also Guo Xiao (fn. 58), 50–52.

[69] Xie (fn. 68), 36–37.

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> As happy peace must be built on the foundation of powerful military strength, so are the people's voluntary and self-conscious actions to be formed on the basis of the legal and compulsory standard. We should justly and forcefully say that we must punish those who have turned a deaf ear to dissuasion from having additional children and from unscrupulously having additional children and that suitable coercion and control should be implemented in China's family planning.
>
> ... Only if the country adopts effective and compulsory policies and at the same time, carries out propaganda and education, can the consciousness of the society be aroused. If we do not understand this problem and change the current situation soon, when we wake up in a number of years, we shall find that it will be too late.[70]

This message is a plea for effective mobilization. Despite its open advocacy of the use of coercion and compulsion, however, it is not a plea to re-create the disruptive mass campaign formula of the Maoist past. On the contrary, it is notable for its emphasis on enforcement of the "legal and compulsory standard," the adoption of "effective and compulsory policies," and for its denigration of "gloomy and feeble propaganda and education"—language out of character with the mobilization politics of the Maoist period. Instead of a disruptive mass campaign, the author calls for a targeted effort to enforce regulations already in place, and to create new, more effective ones where necessary. In short, it is a call for party mobilization to implement social policy by all necessary means, including force, but not for mobilization on a mass scale.

Sources of Mobilization in Chinese Politics

In contrast to the hypotheses of Lowenthal and Jowitt, I have argued that China in its postrevolutionary phase has not abandoned mobilizational methods to achieve party-defined goals. That is not to say that China remains a mobilization regime, but rather that mobilizational methods have been recast in ways that make them useful to the reformist elite. The result has been a variant form of campaign politics which I call institutionalized mobilization. A final objection that might be raised to this analysis is that the case of the one-child policy is unique, and therefore cannot be fairly projected on China's postrevolutionary politics in general. Since there is no denying that China's demographic dilemma is unique, the question is whether or not it has provoked a unique political solution.

The political trajectory of the one-child policy has been anything but exceptional. On the contrary, it has accurately mirrored the foremost

[70] Ibid., 37.

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political dilemma of the Deng regime in the 1980s—engineering rapid socioeconomic modernization within prescribed Leninist boundaries while relaxing tight political controls. Although the death of Mao in 1976 paved the way for the abandonment of the Maoist path to development and his radical revolutionary vision, Deng Xiaoping's alternative vision, which began to crystallize in 1978, was also radical and ambitious. Unlike Khrushchev, Deng was prepared to do more than merely repudiate the political excesses of his famous predecessor. He embarked on a modernization strategy that swiftly and fundamentally reversed the deeply rooted Maoist approach. That reversal demanded a deradicalized political environment. But the degree of societal adjustment required for reform, the formidable political opposition to be overcome, and the scope of Deng's reform goals called for the skillful utilization of a familiar political process—mobilization of both party and society to break out of old political and economic routines in favor of new ones.

This effort to reorder an existing socialist society began with a denunciation of political campaigns and mass movements; but it was followed by a spate of dramatic reform initiatives that demanded full mobilization of the party machine. In the countryside, for example, there were tree planting campaigns, electoral reform campaigns, drives to reduce the collective burdens on peasants, the drive to build a socialist spiritual civilization, and, of course, the drive to decollectivize universally and to introduce household contracting. None of these mobilization drives resembled the radical mass campaigns of the Maoist era, and local party cadres sometimes lagged behind enthusiastic peasants. Nevertheless, the basic process of pushing through comprehensive reforms between 1978 and 1983 followed the Leninist, or "engineering," approach to social change—mobilization of the party and mass organizations to take the lead in implementation, and skillful and massive use of the propaganda apparatus to build support for the reformist line and to isolate political opponents.

This brings into question the presumption of a static definition of mobilization as a process of calculated disruption in pursuit of utopian ends. The purpose of mobilization during the stage of socialist transformation was the disruption of bourgeois social arrangements and routines in favor of new socialist arrangements;[71] in Deng Xiaoping's postrevolutionary regime, the purpose of mobilization is to ensure the responsiveness of local cadres to higher-level initiatives, and to gain societal compliance with party efforts to *reorder* the established institutions and routines of socialism. The party remains the instrument of mobilization and di-

[71] Jowitt (fn. 7).

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rected change, but an atmosphere of orderly determination replaces that of "crisis and attack."[72] Mobilization has ceased to be synonymous with permanent revolution, but it remains an essential tool for implementing far-reaching reform while enforcing political orthodoxy. Crises of political power, like the Beijing Spring of 1989, may trigger a reversion to all or most of the revolutionary campaign methods of the past, but mobilizational methods also play important, if more subdued, roles in accomplishing ordinary policy goals on a national or local scale.

The party's continued reliance on mobilizational methods derives from the lingering memory of the institutionalized role that campaigns played during the Maoist era and the defining tendency of Leninist parties to rely on directed mobilization as the basic approach to political change and control. Beyond these institutional bases, however, the longevity of mobilization in China is rooted in structural and political factors.

A chronic and enduring problem in China's vast countryside is that the elite's demands outstrip regular bureaucratic capacities to meet them. In China, all bureaucratic trails lead to township and village leaders. Unlike the county-level bureaucratic apparatus, however, township governments lack the manpower and the skills to routinize party and government work effectively on a consistent basis. At the village level, leaders cease to be full-time employees of the state, and their lack of mobility at this level makes them permanent fixtures in their native communities. Although this organizational arrangement was essential to the transformation of rural China and the consolidation of the CCP's rule, the dual face of village leaders has always posed obstacles to the implementation of central policies that run counter to village interests. Although the leadership routinely tolerated a degree of slippage and corruption at the village level, its single most effective device for containing that slippage was the mass campaign. Social transformation was therefore only one of the motivations for the mobilizational approach to policy implementation. The other was the prevention of organizational decay at the grassroots.

With this tradition of rural mobilization so deeply rooted in the collective memory and so crucial to the maintenance of a disciplined party organization (attributes that separate the Chinese experience sharply from that of the Soviet Union), the formal repudiation of political campaigns did little to alter the behavioral response of local cadres who had a limited repertoire of leadership methods. In the short run, patterns established over decades ensured that party cadres remained highly sensitive to mobilizational cues from the center—so much so that they were

[72] David E. Apter, *The Politics of Modernization* (Chicago: University of Chicago Press, 1965), 360.

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still susceptible to the political sins of overzealousness and "commandism" (exercising arbitrary and dictatorial rule).[73]

Over time, however, the decentralization and diversification of power resulting from successful reform eroded both the fear of retribution and the promise of meaningful reward necessary to mobilize society effectively, and altered the relationship of the party center to the far-flung party rank and file. As local cadres were rewarded more for economic entrepreneurship than for political discipline, and as the demands of newly empowered provincial or county officials took precedence over Beijing's instructions, old forms of political deviance gave way to new ones. "Coercion and commandism" (*qiangpo mingling*) in family planning yielded to neglect and to falsification of records; more broadly, economic commandism and leftism were replaced by corruption and bourgeois liberalization as the most dangerous forms of political deviance.

Yet mobilization campaigns did not disappear. Instead, they were utilized by central, provincial, and even county officials as a routine method for getting things done.[74] Moreover, as fiscal austerity started to impede government work in the late 1980s, mobilization became a convenient bureaucratic tool for overriding fiscal constraints by placing temporary political pressure on reluctant cadres.

Mobilization of some sort may not necessarily remain a permanent feature of Chinese politics. The perpetuation of variant forms of mobilization in postrevolutionary China, however, does bring into question the dichotomous phasing of communist state evolution implied in earlier models. The campaign method, which implies a mobilizational override of routine bureaucratic procedure, is an institutional and procedural correlate of Communist Party rule in China. Rather than dying away in the postrevolutionary era in favor of routinized, Weberian bureaucratism, institutionalized forms of mobilization have found common ground with bureaucratic process.[75] Regardless of official rhetoric, neither modernization writ large nor the death of Deng Xiaoping and other revolutionary elders is therefore likely to extinguish this form of campaign. That would require a more fundamental rearrangement of the structure of power than China's Leninist rulers have been willing to permit.

[73] Stuart R. Schram, *Ideology and Policy in China since the Third Plenum, 1978–84*, Research Notes and Studies No. 6 (London: Contemporary China Institute, School of Oriental and African Studies, 1984).

[74] For example, Michel Oksenberg reports that campaigns were utilized by county officials in Zouping county, Shandong Province. See his "Preliminary Impressions of Zouping County Level Government" (Paper presented at the Association for Asian Studies Annual Conference, Chicago, April 6–9, 1990).

[75] The implications for a single pattern of political authority and a non-Weberian form of bureaucratic evolution parallel the conclusions of Walder (fn. 9), chaps. 7 and 8.

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FRAMING THE NATIONAL INTEREST

The Manipulation of Foreign Policy Decisions in Group Settings

By ZEEV MAOZ*

Introduction

DO reasonably smart, politically experienced leaders sometimes make national choices that go against their own best judgment, even though they have not been forced into such decisions by higher authorities or by powerful external powers? Indeed, yes: it is not at all infrequent that those who make foreign policy are manipulated into choices that they would not have made otherwise. Political manipulation is an attempt by one or more individuals to structure a group choice situation in a manner that maximizes the chances of a favorable outcome or minimizes the chances of an unfavorable one.[1] Manipulation of decisions differs from persuasion or other direct attempts to influence choice outcomes. Whereas manipulation focuses on structuring the group decision-making situation in a manner that assures success, persuasion entails direct attempts to influence (or pressure) individual decision makers into changing their preferences.

The main argument of the study has four components. First, political manipulation differs significantly from persuasion and other influence strategies in group decision making. Second, in some cases political manipulation may induce high-quality decisions, whereas in other cases it may cause the group to deviate considerably from the canons of rationality. Third, political manipulation is not invariably successful; certain situational and structural conditions contribute to its effectiveness, and others limit it. These are explored below. Fourth, even tactics of political manipulation that are skillfully applied can be effectively countered. A

* I wish to thank Steven Brams for his perceptive comments on earlier drafts. Thanks are also due to the National Security Archive, Washington, DC, for making available the transcripts of the Executive Committee meetings during the Cuban missile crisis.

[1] This definition is adapted from William H. Riker, *The Art of Political Manipulation* (New Haven: Yale University Press, 1986), ix.

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discussion of political manipulation must, therefore, also explore some evasion tactics and countermeasures.

The essay is organized as follows. First, a theoretical background for the study of political manipulation is provided. Next, various tactics of political manipulation are discussed and illustrated by a number of case studies of crisis decisions made by American and Israeli policy groups. The paper concludes with a discussion of the conditions facilitating manipulation and of some evasion tactics.

The Group-Induced Shift Phenomenon and Political Manipulation

Despite their special attributes, foreign policy groups share some traits with the more typical problem-solving groups studied by social psychologists.[2] One of the key issues that has dominated research on group-level foreign policy choices was the well-known group-induced shift phenomenon.[3] This finding suggests that it is impossible to tell before group deliberations what the choice of the group will be, even if one knows which way the participants are leaning at the beginning of the deliberations and what kind of decision rule is being used. Group dynamics have a significant impact on the choice outcome.

The explanations of the group-induced shift phenomenon fall into three general categories: persuasive argumentation theories, value theories, and groupthink theory. The persuasive argumentation school claims that group discussion is an occasion for the exchange of information and persuasive argumentation. Individual preferences change in the course of group discussion because people learn new things about the decision problem and are exposed to new information, new options, new definitions of dangers and opportunities, and new criteria by which options

[2] Zeev Maoz, *National Choices and International Processes* (Cambridge: Cambridge University Press, 1990), 206–8, identifies five special characteristics of national decision groups: (1) permanence, (2) multi-issue responsibility, (3) hierarchical structure, (4) accountability to both internal and external constituencies, and (5) common history and common future. Representative studies of group decision making in foreign policy settings are Joseph De Rivera, *The Psychological Dimension of Foreign Policy* (Columbus, OH: Bobbs-Merrill, 1968); Irving Janis, *Groupthink*, 2d ed. (Boston: Houghton Mifflin, 1982); Andrew K. Semmel and Dean G. Minix, "Small Group Dynamics and Foreign Policy Decision Making," in Lawrence Falkowski, ed., *Psychological Models in International Politics* (Boulder, CO: Westview Press, 1979); and Zeev Maoz, "The Decision to Raid Entebbe: Decision Analysis Applied to Crisis Behavior," *Journal of Conflict Resolution* 25 (December 1981), 677–707.

[3] For reviews of the various approaches on the group-induced shift phenomenon, see Dorwin Cartwright, "Risk Taking by Individuals and Groups: An Assessment of Research Involving Choice Dilemmas," *Journal of Personality and Social Psychology* 20 (September 1971), 361–78; Dean G. Pruitt, "Choice Shifts in Group Discussion: An Introductory Review," *Journal of Personality and Social Psychology* 20 (September 1971), 339–60; idem, "Conclusions: Toward an Understanding of Choice Shifts in Group Discussion," *Journal of Personality and Social Psychology* 20 (September 1971), 495–510.

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can be evaluated. These factors serve as a basis for revision of individual choices, often resulting in substantive preference change. This process is rational because group discussion renders individual choices more comprehensive and less biased than they would have been had the individuals made decisions on their own.[4]

Value theories assert that groups create norms and values that cause individuals to adapt, or shift, their preferences to accord with what they perceive to be the group's norms. This implies at least some degree of irrationality because the same person faced with the same choice problem might choose one way or another, depending on his or her perception of the dominant group-shared norm.

The groupthink model shares some of its features with value theories but is more dynamic and general. Groupthink postulates a concurrence-seeking pattern wherein the individual changes preferences in accordance with what he or she perceives to be an emerging group consensus or the leader's preferences. This switch may be voluntary or forced. Voluntary preference change is due to the individual's fears of being the outcast or to the desire to belong to the in-group. Forced preference change is caused by explicit pressure put by some group participants on those who express dissenting views. Permanent policy groups that meet on a regular basis come to develop common values, perceptions, expectations, and stakes vis-à-vis outside actors, all of which enhance groupthink tendencies. The groupthink theory also emphasizes non- or extrarational aspects of the decision-making process because it demonstrates that group interaction serves to constrain comprehensive and critical analysis and evaluation of choice problems.[5]

All the explanations of group-induced shifts assume substantive changes in individual preferences. These changes are due either to exposure to new information and arguments or to new considerations that are extraneous to the decision problem itself, such as promoting or adjusting to group-shared values or seeking to preserve group harmony.

There are, however, choice shifts that occur even though there have not been actual changes in individual preferences. First, individuals may

[4] Eugene Burnstein et al., "Risky Shift is Eminently Rational," *Journal of Personality and Social Psychology* 20 (September 1971), 426–71. See also Amikam Vinokur and Eugene Burnstein, "Effects of Partially-Shared Persuasive Arguments on Group-Induced Shifts," *Journal of Personality and Social Psychology* 29 (September 1974), 305–15; Martin F. Kaplan, "Discussion Polarization Effects on Modified Jury Decision Paradigms: Informational Influences," *Sociometry* 40 (September 1977), 262–71; and Martin F. Kaplan and Charles E. Miller, "Judgment and Group Discussion: Effects of Presentation and Memory Factors on Polarization," *Sociometry* 40 (December 1977), 337–42.

[5] The most important source on this theory is Janis (fn. 2). See also Irving Janis and Leon Mann, *Decision Making: A Psychological Analysis of Conflict, Choice, and Commitment* (New York: Free Press, 1977).

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act sophisticatedly; they may choose second-best options because they reason that sincere choice may result in a worse outcome.[6] Second, group-induced shifts may result from the making of formal or informal coalitions. Individuals are expected to join that coalition which maximizes their payoffs and choose in accordance with the agreed behavior of that coalition. Here, too, although the individual's preferences have not changed, his or her choices have changed in order to maximize outcomes.[7]

That there are numerous possible explanations of the same phenomenon makes it difficult to establish which best represents reality. The model that accounts for group-induced shifts in individual choices may well depend on the structure of the group, on the nature of individual preferences, on the procedures by which the group decides, and on the circumstances under which the decision is made (for example, the amount of time available and the threats and opportunities embedded in the choice situation). Yet foreign policy literature has paid little attention to political manipulation processes that are distinct from the kind of choice shifts discussed above, despite the fact that such phenomena may be quite common.

Tactics of Political Manipulation

The term manipulation has a negative connotation. It suggests that one becomes an instrument of a more sophisticated peer and therefore

[6] The sophisticated voting explanation was originally formulated by Robin Farquharson, *Theory of Voting* (New Haven: Yale University Press, 1969). Other models of sophisticated voting have been developed by Richard Niemi and Arthur Frank, "Sophisticated Voting under the Plurality Procedure," in Peter C. Ordeshook and Kenneth A. Shepsle, eds., *Political Equilibrium* (Boston: Kluwer-Nijhoff, 1982); idem, "Sophisticated Voting under the Plurality Procedure: A Test of a New Definition," *Theory and Decision* 19 (April 1985), 151–62; and Dan S. Felsenthal, Amnon Rapoport, and Zeev Maoz, "Tacit Cooperation in Three-Alternative Non-Cooperative Voting Games: A New Model of Sophisticated Behavior Under the Plurality Procedure," *Electoral Studies* 7 (June 1988), 143–61.

[7] The coalition literature in the context of political behavior is summarized in Peter C. Ordeshook, *Game Theory and Political Theory* (New York: Cambridge University Press, 1986). A note about bureaucratic politics theories is in order here. This theory is chiefly developed in Graham T. Allison, *Essence of Decision: Explaining the Cuban Missile Crisis* (Boston: Little Brown, 1971); Graham T. Allison and Morton Halperin, "Bureaucratic Politics: A Paradigm and Some Policy Implications," in Raymond Tanter and Richard Ullman, eds., *Theory and Policy in International Relations* (Princeton: Princeton University Press, 1972), 40–79; and Morton A. Halperin, *Bureaucratic Politics and Foreign Policy* (Washington, DC: The Brookings Institution, 1974). Bureaucratic politics theory presents national choices as outcomes of intragovernmental bargaining processes in which individuals make and unmake coalitions that serve their goals more than they serve a common conception of a "national interest." This theory is often taken as portraying the behavior of political leaders as nonrational; but cooperative game theory clearly suggests that such processes are eminently rational given that individuals differ in terms of their policy preferences. Irrational group behavior reflects cases wherein individuals pass up opportunities to maximize their payoffs in group settings because of group-induced pressure; this may include even those decisions that are

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does not act out of free will and for internal reasons, but rather as a pawn in some external scheme. Although this is precisely what political manipulation is all about, it must be stressed at the outset that the implications of political manipulation are not always negative for the victims. Political manipulation may well give rise to outcomes that are far superior from the group's perspective to those that would have obtained without it. Nor do I argue that those who are manipulated always act in ignorance of the kind of scheme in which they participate. Group members may knowingly and willingly play the manipulator's game because it either serves their interests or provides them a safe escape from damaging self-motivated behavior. Finally, political manipulation may be attempted simultaneously by more than one member of the decision-making group; and in fact, most of the tactics of political manipulation can be countered or circumvented quite effectively, as will be shown below.

There exist two general approaches to understanding political manipulation: a rational choice approach and a cognitive approach. (The differences between them are not a matter of whether or not political manipulation is rational. Manipulation that is rational for one person in that it guarantees a victory may be irrational for another who is manipulated and therefore loses.) The approaches are distinguished according to the kind of literature upon which they rely. The rational approach is associated with the social choice literature. The cognitive approach stems from findings that emphasize the nonrational aspects of individual and group behavior.

Some preliminary remarks about group choices are in order before these approaches are discussed. First, policy groups may be more or less hierarchical. In some cases, only one political leader has the final responsibility for national choices, although group members serve as advisers. Even then, one or more of the advisers can manipulate the decision-making process by persuasion or manipulation of the principal decision maker.[8] The key political leader may wish to manipulate his or her advisers in order to create a consensus in a divided policy group. When decisions are reached through a democratic process that requires aggregating individual preferences into a single national choice, several individuals must be manipulated to choose contrary to their intention.

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made in the name of some notion of a "national interest." This is the opposite of what the bureaucratic politics theory leads us to believe. See Maoz (fn. 2, 1990), chap. 5, for a more detailed discussion of this issue.

[8] Even with one key decision maker, advisory groups can still play crucial roles. See I. M. Destler, *Presidents, Bureaucrats, and Foreign Policy* (Princeton: Princeton University Press, 1972), and Alexander L. George, *Presidential Decisionmaking in Foreign Policy: The Effective Use of Information and Advice* (Boulder, CO: Westview Press, 1980), for reviews of the relationship between advisory systems and policy outcomes.

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Second, preferences can be manipulated through a biased and partial presentation of data that makes one's preferred policy option look good and other policy options look bad. This common form of manipulation will not be covered here because it has already been discussed extensively in the literature. (See fn. 2.) Moreover, decision makers are aware of the possibility of biased information and hence often seek out second opinions.

Third, we must explicate what we mean by group-level rationality. The notion of individual rationality has a fairly precise meaning: a decision is rational to the extent that it maximizes the subjectively expected utility of the decision maker, that is, to the extent that the alternative selected from all the available alternatives offers the best chance of achieving the decision maker's goals. But in a collective choice setting, there are at least three conceptions of rationality. *Procedural rationality* focuses on the extent to which the decision-making process follows several procedures of comprehensive search for and analysis of multiple options. Group decision making is taken to be rational to the extent that members develop multiple definitions of the situation, explore multiple alternatives in a parallel manner, engage in an open process of argumentation and exchange of information, evaluate the various policy options in terms of the value tradeoffs they entail, and choose the option that reflects a weighted aggregate of individual preferences.[9]

Outcome rationality focuses on the extent to which group decisions yield favorable outcomes. Accordingly, a decision is judged in terms of its outcome, not on the basis of how it was made. A decision is taken to be rational to the extent that it gave rise to an outcome that maximized the goals of the deciding unit.[10] *Preferential rationality* examines the relationship between individual preferences and the group's choice. The degree of rationality of group decision is evaluated in terms of the extent to which the group decision faithfully reflects the preferences of its members. What that means and whether this goal is accomplishable is the subject of much research associated with social choice theory.[11]

[9] See Janis and Mann (fn. 5), 10–14; Janice Gross Stein and Raymond Tanter, *Rational Decision Making: Israel's Security Choices, 1967* (Columbus: Ohio State University Press, 1980); Michael Brecher, "State Behavior in International Crises," *Journal of Conflict Resolution* 23 (September 1979), 446–80; Irving Janis, *Crucial Decisions* (New York: Free Press, 1989), Maoz (fn. 2, 1990), chaps. 5–6; and Maoz (fn. 2, 1981).

[10] A key question in the literature on foreign policy decision making concerns the extent to which the procedural and outcome rationality perspectives correlate. See Ole R. Holsti and Alexander L. George, "The Effects of Stress on Foreign Policy Makers," in Cornelius P. Cotter, ed., *Political Science Annual* (Indianapolis, IN: Bobbs-Merrill, 1975), 6:255–319; Janis (fn. 9); Gregory M. Herek, Irving L. Janis, and Paul Huth, "Decision Making during International Crises: Is Quality of Process Related to Outcomes?" *Journal of Conflict Resolution* 31 (June 1987), 203–26; and Maoz (fn. 2, 1990), chap. 8.

[11] On the evolution of this literature, see Duncan Black, *The Theory of Committees and*

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For a number of reasons, the present study relies on the procedural rationality perspective to assess the implications of political manipulation. First, because political manipulation is a procedural device for influencing group choices, its implications must be examined in primarily procedural terms. Second, the implications of political manipulation are highly ambivalent when assessed according to the outcome and preferential rationality perspectives. The outcome of a national decision is as much a function of the choices of other states as it is of the choice of the policy group of the focal state. Likewise, the extent to which political manipulation brings about a decisional outcome that misrepresents the preferences of individual members may be as much a function of those preferences as it is a function of shrewd structuring of the choice setting.[12]

Manipulation That Expands Group Choices[13]

Models of political manipulation share the assumption that the would-be manipulator knows how each of the other decision makers rank orders all of the available alternatives. In some cases, the manipulator may also know the factors that account for these preferences. A well-known strategy of political manipulation is agenda setting. This can take a variety of forms, although two of them are the most common: defining the choice rule and defining the sequence by which options are introduced.

Choosing the "Right" Choice Rule

A decision maker who can determine the procedure by which the group decides is in a position to affect the choice outcome without having to induce individual preference change. Consider the following example. A group of nine decision makers must choose one of four alternatives. The preferences of the individuals over the four alternatives are given in Table 1.

If the decision in the group is reached by majority vote, then any of

Elections (Cambridge: Cambridge University Press, 1958); William H. Riker, *Liberalism against Populism* (San Francisco: Freeman, 1982); and William H. Riker and Peter Ordeshook, *An Introduction to Positive Political Theory* (Englewood Cliffs, NJ: Prentice-Hall, 1973). The classical modern work in this tradition which provides the most fundamental result in this body of research is Kenneth Arrow, *Social Choice and Individual Values* (New York: Wiley, 1951). Arrow's "paradox of voting" suggests that there exists no democratic aggregation scheme for the conversion of rational individual preferences into a rational group preference.

[12] Nevertheless, I will make occasional references to the other two perspectives in the following discussion.

[13] Much of the following discussion is based on Riker (fn. 1) and William H. Riker, "The Heresthetic of Constitution-Making: The Presidency in 1787, with Comments on Determinism and Rational Choice," *American Political Science Review* 78 (March 1984), 1–16.

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TABLE 1
RANKED PREFERENCES OF FOUR ALTERNATIVES BY NINE DECISION MAKERS

Decision-Making Subgroup	*No. of Decision Makers*	*Alternatives*[a]			
		a	*b*	*c*	*d*
I	three	1	2	3	4
II	two	4	2	1	3
III	two	3	2	4	1
IV	two	4	2	3	1

[a] Ranks are: 1 = best, 4 = worst.

the members can manipulate the decision by choosing the "right" decision rule. A member of subgroups III or IV can manipulate choice by recommending simultaneous decision among all four alternatives, with the group choice being the one with the most votes. This would lead to selection of alternative *d* (with four votes) if members vote sincerely (that is, they vote for their top-ranked alternatives). By contrast, the members of groups I or II cannot assure the selection of their top-ranked alternatives in a case of simultaneous decision (*a* would have three votes, and *c*, two votes). The best that members of those groups can do is to recommend a procedure that requires sequential pairwise choice (regardless of the specific order of contests). This would assure the selection of their second-best alternative, *b*, because this alternative (called a "Condorcet alternative") beats every other alternative in a pairwise contest.[14]

Switching from simultaneous voting on all alternatives to a sequential agenda setting reduces procedural rationality. With sequencing, the group considers all the alternatives, but only two at a time. The group would therefore not consider all pairwise confrontations among alternatives, because only winning alternatives from a previous round go to the next round. Hence, the order in which alternatives are introduced determines which ones are pitted against each other and which do not confront each other at all. This has an effect on the decisional outcome in cases that do not have a Condorcet alternative.

Consider the example shown in Table 2. If the selection procedure is simultaneous, there will be a tie among the three alternatives, in which

[14] The "Condorcet alternative" is named for 18th-century French mathematician Marquis de Condorcet, who defined the principle. From the perspective of social choice theory, if such an alternative exists (and as Arrow [fn. 11] showed, this need not necessarily be the case), its selection by a decision-making (or any other voting) body is taken to be a preferentially rational decision. It follows that the selection of any other alternative (for example, alternative *d* in Table 1) is nonrational from a preferential perspective.

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TABLE 2
RANKED PREFERENCES OF THREE ALTERNATIVES BY THREE DECISION MAKERS

Decision-Making Bloc	*Alternatives*[a]		
	a	*b*	*c*
I	1	2	3
II	2	3	1
III	3	1	2

[a] Ranks are: 1 = best, 3 = worst.

case a tie-breaking rule is necessary. Following an agenda-type selection procedure, however, the sequence has a significant impact on the outcome. Suppose that alternatives *a* and *b* are first pitted against each other, with the winner matched with *c*. In this case, *a* defeats *b* (by the votes of blocs I and II), but is defeated by *c* in the second round (by the votes of blocs II and III). If alternatives *a* and *c* confront each other in the first round, the final decision is alternative *b* (because *c* beats *a* in the first round but loses to *b* in the second). Finally, if alternatives *b* and *c* are considered together in the first round, the final decision is alternative *a* (*b* beats *c* in the first round but loses to *a* in the second). The manipulator can get his or her top-ranked alternative by recommending an agenda wherein that alternative is not in the first pairwise contest.

There are three problems with these agenda manipulation schemes that may render them ineffective or even counterproductive for the manipulator. First, in many cases policy groups may have well-established choice rules that cannot be changed at will. Sequencing alternatives within an agenda-type selection procedure is more feasible when some decision makers can control the order of proposals on the floor in a manner that suits their preferences.

Second, the manipulated may outsmart the manipulator by choosing sophisticatedly. If allowed to determine the sequence of selection, voter I in Table 2 will start by pitting alternatives *b* against *c*, with the winner being pitted against *a*. If all vote in direct accordance with their preferences, this sequence would lead to the selection of alternative *a*. But if voter III foresees that the final outcome would be disastrous for him because *a* is his worst choice, it would be rational for him to vote for *c* in the first round, instead of voting for *b*. This will lead to the defeat of *b* in the first round and to the defeat of *a* in the second. Since voter III prefers *c* to *a*, he can outsmart the manipulation effort of voter I.

Third, it is difficult to establish a general principle that specifies when

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these manipulation tactics work in the desired way without knowing the specifics of the choice setup (that is, the number of alternatives, the distribution of individual preferences, the social preference function,[15] and the amount of information available to group members regarding the preferences of other members). The only way a Condorcet alternative can be defeated is by voting simultaneously on all the alternatives; one cannot defeat it in a sequential agenda setting, regardless of the sequence one uses.[16] When all of the preferences of the various decision makers are common knowledge, sequencing can be a double-edged weapon if other members see the trap and outmaneuver the manipulator by sophisticated choice.[17]

Splitting the Majority with a New Alternative

When there is a majority coalescing about an alternative that one views as disastrous, introducing a new alternative can lead some supporters of the previous majority alternative to switch to the new one. Together with some switchers from the previous minority alternative, the new alternative may become the group's choice. Another possibility is that the addition of a new alternative may split supporters of the majority alternative and result in the conversion of the previous minority alternative into one that controls a plurality.[18]

One may argue with some truth that this does not satisfy the definition of political manipulation because the introduction of a new alternative causes preference change. But those who switch their vote need not change the ranking of the previous alternatives; they may simply add the new alternative to their preference scale. Moreover, the manipulator can maximize the chances that this alternative will succeed by designing it in a manner that addresses the fears of supporters of both the majority

[15] The social preference function is the preference ordering of the alternatives by the group as a result of all the possible pairwise contests between them. For example, in Table 1 the social preference function is $b \succ [a \succ c \succ d \succ a]$, which means that although there exists a Condorcet alternative, the society does not have a transitive ordering of the remaining alternatives. All alternatives but b are in a cycle, as is the case with respect to all three alternatives in Table 2.

[16] See Hannu Nurmi, "Voting Procedures: A Summary Analysis," *British Journal of Political Science* 13 (June 1983), 181–208.

[17] One of the most significant results of social choice theory is that there exists no social choice rule that is manipulation-proof. See A. Gibbard, "Manipulation of Voting Schemes: A General Result," *Econometrica* 41 (December 1973), 587–601. Experimental studies of sophisticated choice in agenda settings suggest that people behave sophisticatedly if the conditions regarding knowledge structures are met, although the proportion of such sophisticated choices is not very high (about 30%). See Roberta O. Herzberg and Richard K. Wilson, "Results on Sophisticated Voting in Experimental Settings," *Journal of Politics* 50 (May 1988), 471–86, and Richard K. Wilson and Andrew Pearson, "Evidence of Sophisticated Voting in Committee Setting: Theory and Experiments," *Quality and Quantity* 21 (September 1987), 255–73.

[18] Riker (fn. 1), 1.

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and the minority alternatives. The manipulator thus does not affect preferences directly but uses the information regarding the determinants of those preferences to form a new alternative that requires the other decision makers to redefine their preferences.

This sort of manipulation is rational because the menu of available alternatives before the group is expanded and thus requires enhanced analysis and appraisal. Such a tactic is especially effective when the group must choose between two alternatives; in such a case, a third alternative may become a Condorcet alternative, defeating the other two in pairwise contests, or it may provoke sophisticated choice that results in a choice shift.

The introduction of a new alternative is often a feasible tactic in foreign policy settings because there are generally no formal rules to prevent the introduction of new alternatives. Moreover, this tactic can be applied independently of the choice procedure used by the group. There are potential drawbacks to this tactic, however. It may be countered by sophisticated choice or by an identical tactic on the part of opponents of the new alternative, in which case it sometimes results in just the inverse of what the manipulator had hoped to accomplish.

Consider the following example. A group of nineteen decision makers must choose between policy options *a* and *c*. A straw poll in the group reveals that thirteen members prefer *c* to *a* and six prefer *a* to *c*. One of the members who prefers *c* to *a* nonetheless feels that there exists another option, *b*, which is preferable to both and which, if proposed, could split both the majority support for *c* and the minority support of *a*. Indeed, once the new option is introduced, the group is split as follows: six members have preference order *acb*;[19] seven members have the same preference order as that of the manipulator, *bca*; four members have preference order *cab*; and two members have preference order *cba*. If all choose their top preference, *b* wins with a plurality of seven votes, topping *a* and *c* with six votes each. However, the four voters with preference *cab*, who see this outcome as unacceptable, can outsmart the manipulator by switching their support to option *a*, their second-ranked policy, leading to its selection. This, of course, is the manipulator's worst outcome. Not only is that a bad outcome for the manipulator, it is an undesirable collective outcome as well, because *c* is the Condorcet alternative.[20]

[19] Read *a* is preferred to *c* and *c* is preferred to *b*. Transitivity implies that *a* is preferred to *b*.

[20] A detailed analysis of this example is given in Dan S. Felsenthal and Zeev Maoz, "A Comparative Analysis of Sincere and Sophisticated Voting under the Plurality and Approval Voting Procedures," *Behavioral Science* 33 (April 1988), 116–30.

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Nonrational Manipulation

Nonrational manipulation consists of a variety of schemes for limiting the array of choices before the group, prohibiting individuals from expressing the full array of their preferences, misrepresenting information concerning the risks and benefits involved in certain options, or deliberately underestimating the feasibility of certain measures and overestimating the feasibility of others. Because these tactics are familiar to students of foreign policy, I will not elaborate on them here.[21] Those tactics of nonrational manipulation that I discuss have been largely unexplored in a group context. These tactics are the "framing" of decisions and the "salami tactic," or the breaking down of a "big" decision into several smaller ones.

Framing Group Decisions

The work on prospect theory shows that an exceedingly large number of people from different backgrounds and with different levels of knowledge and sophistication repeatedly violate the most basic axioms of rational choice.[22] One of the more conspicuous violations is the so-called "framing" effect. Contrary to the expectations of rational choice theory, it has been shown that people are generally risk-averse with respect to gains and risk-acceptant with respect to losses, that they are more risk-acceptant for losses than they are risk-averse for gains, and that the notion of what gains and losses mean depends on a given reference point that serves as a sort of baseline.

While this result is based on experiments designed to test how people make individual choices, it has important implications for the manipulation of group decisions. An individual's choice can be reversed by framing a given choice problem differently. If it is presented as a choice between gains, one will typically choose the less risky option. However, if it is presented as a choice between losses, then one will opt for the riskier option.

Since political choices often involve trade-offs, the representation of a choice problem as one that is strictly between gains or strictly between

[21] George (fn. 8) and Janis (fn. 9) provide probably the best surveys of these problems in foreign policy settings.

[22] Daniel Kahneman and Amos Tversky, "Prospect Theory: An Analysis of Decision under Risk," *Econometrica* 47 (June 1979), 263–91; Amos Tversky and Daniel Kahneman, "The Framing of Decisions and the Psychology of Choice," *Science* 211 (1981), 453–58; idem "Rational Choice and the Framing of Decisions," *Journal of Business* 59, special supplement (December 1986), S225–50; and George A. Quattrone and Amos Tversky, "Contrasting Rational and Psychological Analyses of Political Choice," *American Political Science Review* 82 (September 1988), 719–36.

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losses is unlikely to be convincing. People would immediately realize that they are being manipulated, though they may be unaware of what kind of manipulation is going on. Yet it has been shown that even when trade-off information is explicitly given in the decision problem, the framing tactic still influences the kinds of trade-offs people make.[23] Trade-offs between risks and losses need not be suppressed, therefore, but can be framed in a manner that will produce the desired inclination toward risk or caution. Thus, if one favors a bold and risky alternative, the framing tactic requires a definition of the decision problem as a choice between risky prospects. And if one wants the group to play it safe, the tactic requires that the problem be defined as a choice between gains. To use the framing tactic, one must create a reference point that serves as the basis for defining what is a gain and what is a loss.[24]

Framing is clearly a nonrational manipulation tactic; it capitalizes on the known tendencies of individuals to deviate from the postulates of rational decision theory. This method can be applied irrespective of the choice rule used by the group and of the social preference status of the alternatives being manipulated.

The framing result suggests that preferences can be formed in accordance with the manipulator's wish without tampering with the data that serve as the basis for the formation of individual preferences. Virtually all of the group decision theories assume that individual decision makers enter group discussion with preestablished preferences. The framing result does not require this assumption. Framing can take place whether or not people have had a chance to decide which alternative they prefer prior to the group discussion. In fact, the manipulator's task might be easier if decision makers do not have preestablished preferences than it is if they do. What is tricky about the framing tactic is that people really do not realize that they are being manipulated, that is, the reliability of the data or the fairness of the choice procedures are not in question.

Framing, like the previous tactics of political manipulation, can be countered by counterframing. One interpretation of the problem facing

[23] Quattrone and Tversky (fn. 22), 727.

[24] A caveat is in order. The experimental evidence on the framing of choices is based on conditions that are fundamentally different from those that operate in foreign policy settings. First, subjects had been given "accurate" information in an experimental sense; no such accuracy can exist in foreign policy settings. Second, experimental subjects were either uniformly knowledgeable or uniformly ignorant about the subject of the decision problem. In real foreign policy settings, members can differ widely in terms of their knowledge about the issue area into which the decision problem falls. The strength of the framing result derives from the fact that choice switch takes place even when there are no cognitive or situational constraints on rationality. This suggests that under "normal" foreign policy conditions, and with the presence of constraints on rational choice, framing may be even more effective than in the laboratory.

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the group can be countered by another interpretation. The debate over definition of the problem need not be over the data, therefore, but over the implications of the data. An example of this is the debate between Robert McNamara, on the one hand, and McGeorge Bundy and Paul Nitze, on the other hand, during the Cuban missile crisis. McNamara argued that the Soviet missiles did not fundamentally alter the strategic balance. The implication was thus that the United States should either do nothing or restrict itself to diplomatic pressure on the Soviets. Bundy and Nitze argued that the missiles in Cuba almost doubled Soviet strategic power and reduced the warning time in the case of a nuclear confrontation from twenty to two minutes. The implication was that the United States had to do its utmost to bring about a swift removal of the missiles.[25]

The Salami Tactic: Making Big Decisions through Small Steps

The salami tactic is based on the known tendencies of individuals to be myopic in their decision making. Policy groups often exhibit conservative tendencies that stem partly from the nature of group decision-making processes and partly from the commitment of group members to past policies. Such commitments often lead members to view sharp departures as a sign of political inconsistency or as an admission of failure regarding past policies.[26] As public policy analysts have pointed out, the chief problem with the advocacy of policy innovations is selling them to basically conservative policy groups.[27] With the salami tactic one innovates by breaking down the radically novel course of action into a series of gradual policy options. Although each change deviates only marginally from the previous policy, each one also sets the stage for the subsequent decision in the series. Instead of having one sharp departure from the previous policy, the group takes a series of steps that ultimately has the same effect as the "innovative" alternative the manipulator desired all along.

This tactic is a continuous effort at structuring a series of decisions. Each "small" decision may accord with the group's preferences and may result from careful analysis of data and considerations of costs and benefits. But if the group had known that each decision would lead to an-

[25] Roger Hilsman, *To Move a Nation* (New York: Delta Books, 1964), 195; Allison (fn. 7), 195–97.

[26] Eugene Burnstein and Michael Berbaum, "Stages in Group Decision Making: The Decomposition of Historical Narratives," *Political Psychology* 4 (September 1983), 531–61; Janis and Mann (fn. 5), 33–35; Janis (fn. 2), 271–72; Maoz (fn. 2, 1990), chap. 5; David Dery, *Problem Definition in Policy Analysis* (Lawrence: University Press of Kansas, 1984).

[27] Dery (fn. 26).

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other logical extension of the policy and that these decisions, taken together, were part of a pattern whose end was undesirable, most of its members would not have supported even one decision in the chain. Thus, the failure in rationality is over the entire series. At each stage of this process, the decision makers believed that the current problem was the consequence of the immediate situation, which was induced partly by their previous choice but mostly by external factors (such as environmental conditions, other actors' choices, and so forth). They failed to see not only that they were manipulated by one of their own but also that their choices were part of a whole pattern that led precisely to the kind of outcome that they had wished to avoid.[28]

The difficulty of detecting and counteracting the salami tactic is considerable because it capitalizes on the cognitive and situational constraints on rational choice in foreign policy settings. First, most such choices are made under conditions of uncertainty. It is difficult enough to forecast the consequences of one stage following the decision, let alone to foresee the entire chain of events being set up by the manipulator. Second, the interdependent nature of national decisions allows the manipulator to attribute the pattern to the opponent's behavior. Third, the manipulator is typically at an advantage because his or her policy advocacies at each stage of the process actually exploit the group's commitment to its past policies. Because the advocated options set up a logically consistent pattern, they appeal to those who want to preserve stable policy postures. Finally, for this tactic to be effective, the manipulator must insist at each stage of the process that a given action alternative (that which the manipulator advocates) is to be contrasted with an inaction alternative; that is, once the group has been set into a pattern of action by its previous decisions, it is the inaction alternative that would be inconsistent with previous policies.

Because the hidden agenda of the manipulator is difficult to detect, countermanipulation is unlikely. Even if some opponents are aware that

[28] Studies that explore the inherent contradiction between myopic and nonmyopic decisions include Jon Elster, *Ulysses and the Sirens: Studies in Rationality and Irrationality* (Cambridge: Cambridge University Press, 1979); Thomas C. Schelling, *Choice and Consequences* (Cambridge: Harvard University Press, 1984); and Steven J. Brams and Donald Wittman, "Non-myopic Equilibria in 2 x 2 Games," *Conflict Management and Peace Science* 6 (September 1981), 39–62. A useful analogy of the implications of myopic rationality is the well-known dollar auction game. Experimental evidence of the consequences of myopic choice in this game is given in A. Teger, *Too Much Invested to Quit* (New York: Pergamon Press, 1980), and Joel Brockner and Jeffrey Z. Rubin, *Entrapment in Escalating Conflicts: A Social Psychological Analysis* (New York: Springer Verlag, 1985). Applications of this game to international politics include Barry O'Neill, "International Escalation and the Dollar Auction," *Journal of Conflict Resolution* 30 (March 1986), 33–50; and Zeev Maoz, *Paradoxes of War: On the Art of National Self-Entrapment* (Boston: Unwin Hyman, 1989), chaps. 4, 10.

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the group has been subjected to a salami tactic, they may find it difficult to counter. To do that, they must force other decision makers to overcome those cognitive and situational constraints upon which the salami tactic builds; that is, they must persuade their colleagues that the first choice would indeed set the stage for a whole sequence of moves that would lead to undesirable outcomes. In order to accomplish that, they must convey a picture that is extremely complicated and fraught with uncertainty. The manipulator, by contrast, has only to convince decision makers to analyze the current situation, a task that requires less information to digest and analyze and that involves infinitely more confidence in prediction than does long-term forecasting of a whole series of moves and countermoves.

Conditions of Political Manipulation and Some Evasion Tactics

There is a natural tendency in a group decision setting to resort to manipulation rather than to persuasion because the former is easier to stage. What we know about attitude change in policy settings suggests that persuasion is often very ineffective.[29] Once people are cast in a situation wherein a certain choice becomes a natural solution to their problem, however, it is more feasible to get them to make that decision.

Nevertheless, manipulation is not always feasible; nor is it always effective. It is therefore instructive to review briefly some of the conditions that may make political manipulation feasible. These conditions can be divided into four categories: procedural, situational, informational, and structural.

Procedural conditions include those formal rules for making decisions. Rules that establish the procedures by which the group decides limit considerably the feasibility of agenda manipulation, because any manipulation must adhere to these rules. For example, rules pertaining to procedures and responsibilities for interpreting the situation may define who is in a position to manipulate choices, that is, to frame choices, by defining the situation.[30] Likewise, within an agenda setting, those who

[29] On problems of attitude change in foreign policy settings, see Robert Jervis, *Perception and Misperception in International Politics* (Princeton: Princeton University Press, 1976), 288–315.

[30] For example, the centralized structure of government that characterized the Nixon-Kissinger foreign policy administration provided a convenient setting for framing by the national security adviser, who was the conduit for virtually all the information on policy problems channeled to the president. By contrast, decentralized systems of consultation and management allow more opportunities for competing definitions of the situation and hence fewer opportunities for framing. See George (fn. 8).

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are empowered to decide the order by which alternatives are discussed or voted upon can determine the group outcomes under certain circumstances.

Situational conditions that may facilitate manipulation are typically those associated with crisis conditions, that is, an extreme threat to basic values or an extraordinary opportunity, coupled with acute time pressure. Under these conditions, both types of nonrational manipulation tactics can be effective. Framing is feasible to the extent that the group does not have the time to deal with multiple interpretations of the decision problem. The salami tactic is feasible because the problems of the moment preoccupy the decision-making process and prohibit analysis of the broad, long-term picture. Crisis-induced stress allows the manipulator to exploit the ad hoc tendencies of groups under pressure. Time constraints may also prohibit the application of normal procedures and rules of discussion, thereby facilitating agenda manipulation as well. It may be difficult to use the majority-splitting tactic of manipulation, however, because new options proposed in the course of a crisis require exploration of new information and analysis of additional implications, a luxury the group cannot always afford.

Informational conditions are clearly the most important determinants of the feasibility and success of political manipulation. Possession of asymmetrical information and/or expertise may enable some members of the group to apply various tactics of political manipulation successfully. Two types of informational asymmetries are significant here. The first asymmetry concerns information about preferences. In the extreme case, when only one member of the group knows the preferences of all the other members, the former is in a strong position to manipulate group decisions. This, however, is not likely. More typically, some in the group know more than do some of the others about the preferences of the members. The higher the asymmetry in preference information, the more vulnerable are the less informed to manipulation and the less able to resist such efforts.

The second asymmetry concerns information about the situation and the problem. An individual who is the only source of information about the events requiring decision and the data necessary for the evaluation of the various options is in a unique position to frame the issues in a manner that suits his or her goals without actually distorting the information or presenting it in a selective manner. Others may find it difficult to challenge the definition of the situation, especially if the data given to the group sound credible. Under asymmetry regarding decision-relevant

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information, agenda manipulation may be facilitated if the person defining the situation is also able to control the sequence of options confronting the group.

Finally, structural conditions affecting political manipulation refer to the formal and informal hierarchy in the group. Here the proposition is simple: the more strict and steep the group hierarchy, the more those at the top of the pyramid can manipulate those at the bottom and the less the latter can resist the manipulation efforts. This refers to all forms of political manipulation discussed here. Strict hierarchies provide those at the top ample latitude in fixing decision procedures and agendas, opportunities to acquire information about preferences and about decision-relevant data, and considerable freedom in framing the issues. In less hierarchical groups manipulation can be more effectively countered.

Establishing Political Manipulation in History: Methodological Comments

Before the presentation of political manipulation in historical cases, some methodological problems must be discussed. First, it is very difficult to establish whether the preferences expressed by individuals in the course of group discussion are genuine or whether they were altered due to strategic considerations, to concurrence-seeking adjustments, or to persuasive augmentation. Group discussion provides the first and only opportunity for foreign policy decision makers to reveal their preferences. Second, in many cases political manipulation is indistinguishable from other types of group-induced shifts. Very often, political manipulation occurs alongside other kinds of group dynamics, such as groupthink. For these reasons, it is imperative to identify indicators of the various manipulation tactics. These indicators are based mostly on the modus operandi of groups and group members.

Empirical Indicators of Political Manipulation

The key to identifying tactics of political manipulation in historical material is to determine who suggested what at what point of the process.[31] Agenda manipulation is probably the easiest to establish. A researcher can discern clear evidence of agenda manipulation if he or she

[31] The questions of "for what purpose and with what effect" are also important, but they are extremely difficult—if not impossible—to answer with any degree of credibility. The answer to the first question requires information about the intentions of each of the group members, and the answer to the second question requires one to resort to the outcome-rationality notion.

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has information about individual preferences and finds a suggestion for change in the agenda or in the decision rule made by members who, given their preferences, would have been left in a minority. More generally, debates over the procedure by which the group is to decide constitute evidence that different members are trying to affect the outcome through the procedure by which the group decides.

Majority-splitting alternatives may also be proposed by members who sense that they are left in a minority. Often this will take place after a period of debate in which the balance of forces in the group has been revealed. The timing of the suggestion of a new alternative is significant. Such a suggestion is most often presented when the group appears to be either deadlocked or leaning toward one of the original alternatives that some support with reservations as the least of all evils. Information suggesting that the newly proposed alternative is not the top preference of the person who proposed it is evidence of the presence of the majority-splitting manipulation tactic.

Framing is probably the most difficult manipulation tactic to prove in historical research because very often only one definition of the situation is presented to the group. It is thus impossible to know whether a different explication of the choice problem would have resulted in a different decision. However, there can be indirect evidence of framing, in the form of data indicating that a decision maker altered his or her definition of the situation very drastically in a case where the previous definition of the situation would still have provided a plausible interpretation. Because political leaders value consistency, dramatic alterations of the definition of the problem associated with drastic preference change suggests framing. The trick is to distinguish between genuine perceptual change that causes preference change and instrumental change in interpretation of data. One way to make such a distinction is to examine the admissibility of the previous definition of the situation in the light of current data. If current data render the previous definition of the situation implausible, then preference change is a result of sincere change in the perceptions of group members. If, however, the group is swayed by a new definition of the situation even though the old one is still plausible, framing cannot be ruled out.

Evidence for the salami tactic includes information about the existence of a grand scheme to which the group had objected. Further evidence consists of the breakdown of such a scheme into separate stages and of discussion of each stage by the group, without reference to previous stages and potential future stages.

Another caveat concerns the assessment of the implications of political

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manipulation. It is impossible to tell from analysis of historical cases what the group would have decided had it not been manipulated, that is, whether the same outcome would have obtained even without manipulation. In light of these methodological difficulties, research on foreign policy choices in group settings should focus on ruling out the possibility of political manipulation as a plausible interpretation of group decision by determining the *absence* of these traces in the historical case. The presence of these traces can do no more than suggest that political manipulation *may* have occurred, not that it is an exclusive or even the best explanation of the observed process and the resulting choice.

The cases discussed are treated as illustrations of how the various manipulation tactics discussed herein have been used in foreign policy choices and of the new insights that this approach provides.

Manipulation That Expanded Group Choice: The Cuban Missile Crisis and the War of Attrition

Cuba, 1962[32]

The Executive Committee (EXCOM) appointed by President Kennedy to recommend a course of action to deal with the Soviet nuclear missiles in Cuba explored a total of six alternatives. The blockade alternative was mentioned briefly on the first day of meetings but was not raised as a serious alternative until after the initial discussion, when only two other policy options were left viable: the surgical air strike and a diplomatic response of some sort. The main advantage of the diplomatic option was that it entailed the smallest chance of uncontrollable escalation. But it had fundamental drawbacks: (1) the likelihood of inducing the Soviets to remove the missiles was very low, and (2) it would have portrayed the United States as a paper tiger, causing irreparable damage to the credibility of U.S. commitments in Europe and Latin America. These advantages and drawbacks were the reverse of those related to the surgical air strike alternative. The air strike would have been an unequivocal demonstration of resolve, and it would have eliminated most, if not all, of the Soviet missiles. There would have been quite a few Soviet casualties, however, and thus the likelihood of violent Soviet response was high.

[32] This discussion is based on transcripts of the audiotaped meetings of the Executive Committee during the crisis. Hereafter they will be cited as *Transcripts*. Other sources include Allison (fn. 7); Janis (fn. 2), 132–58; Elie Abel, *The Missile Crisis* (Philadelphia: Lippincott, 1966); Arthur M. Schlesinger, Jr., *A Thousand Days: John F. Kennedy in the White House* (Cambridge, MA: Houghton Mifflin, 1965); Theodore Sorensen, *Kennedy* (New York: Harper & Row, 1965); Maxwell D. Taylor, *Swords and Plowshares* (New York: W. W. Norton, 1972); and David Detzer, *The Brink: Cuban Missile Crisis, 1962* (New York: Thomas Y. Crowell, 1979).

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The choice problem, it seemed, was to determine which of the two evils to select. Even the ardent supporters of the surgical air strike recognized its escalatory potential, and the supporters of the diplomatic action were aware of its deterrence-related deficiencies. Nevertheless, a consensus of sorts was beginning to form on the air strike alternative. Those who remained opposed to that alternative needed a strategy:

> [The] anti-airstrike coalition, however, could still offer no concrete alternative, and there lay its greatest weakness. Those men favoring forceful action were so powerful and determined, it behooved those who opposed an airstrike to come up with some *acceptable* alternative (not Stevenson's "negotiations").[33]

Against this background, the introduction of the blockade alternative by McNamara can be interpreted as a case of splitting the majority with a new alternative. The fundamental drawback of the blockade was that it did not provide a direct solution to the problem of the Soviet missiles, although it did directly address the drawbacks of both the air strike option and the diplomatic one. The air strike advocates were not easily convinced; but all those who had initially favored a diplomatic response switched to the new alternative because it offered all the advantages of a move that allowed diplomatic activity as well as the advantages of a clear demonstration of resolve. The fear of a nuclear war led some supporters of the air strike to switch to the new alternative because it was not an irrevocable act.

The arguments for the blockade were of just the sort that a majority-splitting alternative exhibits: the weaknesses of other alternatives. The seeming unfeasibility of a surgical air strike must have prompted supporters of a firm reaction to strategic support of the blockade, which they considered to be superior to the only other viable option—an indecisive diplomatic move.

Let us look at the circumstances surrounding the invocation of the blockage alternative in order to identify the indicators of political manipulation. It is significant that prior to the recommendation of the blockade, McNamara had argued for a "do nothing" alternative on the grounds that the Soviet missiles in Cuba did not dramatically alter the strategic balance of power. He must have realized that his preferred option had little support in the group; most notably, the president strongly objected to it. He also must have seen that his worst alternative had substantial support in the group. Hence, the recommendation of a blockade can be seen not only as a case of group manipulation but also as one of strategic choice on McNamara's part and also on the part of ardent

[33] Detzer (fn. 32), 115–16; emphasis in original.

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supporters of more moderate action such as Stevenson. As Allison puts it:

> McNamara's vision of the nuclear specter set him firmly against the air strike. His initial attempt to frame the issue in strategic terms struck Kennedy as particularly inappropriate, given the President's problem. Once McNamara realized that the President required a strong response, he and his deputy Gilpatrick seized the blockade as a fallback.[34]

All of the indicators of majority-splitting manipulation are present in this case. First, the identity of the proposer is clearly indicative of the manipulative nature of the alternative. McNamara realized that he was left in a minority both in terms of his interpretation of the severity of the Soviet threat and in terms of his inclination to downplay the U.S. response. Second, the timing of the proposition is also significant. Allison mentions that by Tuesday evening it seemed that the president had made up his mind to pursue forceful action.[35] Virtually the entire Tuesday evening session of the EXCOM, with the president in attendance, was devoted to a discussion of the technical and political implications of the air strike. It was only after the president's departure and when the agenda for the Wednesday meeting was discussed that McNamara introduced the blockade option.[36] And third, the nature of the alternative as a middle course that did not address the issue of the missiles directly but left the door open to other measures suggests that it was an attempt to sway the more moderate supporters of the air strike, such as Robert Kennedy and Ted Sorensen.[37] McNamara could also rely on the strategic support of the advocates of diplomacy and thereby break the majority favoring an air strike.

While it is difficult to establish with absolute certainty that the blockade option was a case of political manipulation rather than a sincere effort to find a deadlock-breaking middle course, the combination of all three indicators of this tactic suggest that majority-splitting manipulation cannot be ruled out.

THE ROGERS INITIATIVE OF 1970 AND THE BREAKDOWN OF THE NATIONAL UNITY COALITION IN ISRAEL[38]

The Israeli-Egyptian war of attrition, which had raged since March 1969, took a dangerous turn in the spring of 1970. The Israelis embarked

[34] Allison (fn. 7), 202. See also Schlesinger (fn. 32), 802–8.
[35] Allison (fn. 7), 202.
[36] *Transcripts*, October 16, 1962, pp. 1–52.
[37] Ibid., 202–3. This, indeed was McNamara's main argument for the blockade.
[38] Sources for this analysis include Michael Brecher, *Decisions in Israel's Foreign Policy*

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on a campaign of deep-penetration air raids that caused numerous casualties in Egypt. The Soviet involvement in the war became more apparent, with Soviet personnel manning antiaircraft missile batteries and flying Egyptian planes. This escalation raised considerable concern in Washington. On June 19 a proposal drafted by the U.S. secretary of state, William Rogers, was submitted to both Egypt and Israel. This proposal called for an immediate cease-fire and the start of peace talks on a "just and lasting peace" under UN auspices.[39]

Initially, the Israeli government rejected the plan, which it saw as calling for total Israeli withdrawal from the territories. The expectation was that the Egyptians would reject the proposal as well. However, the Egyptian reply to the Rogers proposal was favorable. Faced with mounting diplomatic pressure from Washington, the Israelis started intense negotiations with the U.S. designed to achieve assurances that would soften the blow of the Rogers proposal. On July 24 a dispatch from President Nixon to the Israeli premier, Golda Meir, promised continued American military and economic aid to Israel and also expressed U.S. objections to a total Israeli withdrawal to the pre–June 1967 borders. This dispatch caused a major shift in the attitude of many of the Israeli cabinet ministers to the Rogers proposal. The cabinet reconvened on July 31, following a week of intense deliberations within the various parties that comprised the national unity coalition.

Prior to that meeting, it was clear that Golda Meir was going to recommend acceptance of the Rogers proposal. The Gahal Party (a right-wing coalition of the Herut Party and the Liberal Party) led by Menachem Begin was opposed to the proposal and threatened to leave the national unity government if it was accepted. Because Gahal was a minority in the Knesset, its departure would not have destabilized the parliamentary basis of support for the government. Nevertheless, several members of the government, led by the defense minister, Moshe Dayan, felt that every effort should be made to preserve the national unity cabinet. Hence, during the government meeting Dayan proposed a third alternative: to ignore the Rogers proposal and respond, instead, to the Nixon dispatch. Accepting this dispatch with some modifications might make the Israeli position more acceptable to the hawkish faction in the government.

(London: Oxford University Press, 1974), 454–517; Dan Margalit, *Sheder mehabayit halavan* [*Dispatch from the White House*] (Tel Aviv: Otpaz, 1971); Avi Shlaim and Raymond Tanter, "Decision Process, Choice, and Consequences: Israel's Deep Penetration Bombing in Egypt, 1970," *World Politics* 30 (July 1978), 483–516; and Ezer Weizman, *On Eagles' Wings* (New York: Berkeley Books, 1976).

[39] The full text of the proposal is cited in Brecher (fn. 38), 490–91.

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Dayan's proposal seemed to many of the ministers ambiguous and confusing. It was not clear what Israel was accepting and what it was rejecting. To other ministers, Menachem Begin in particular, this proposal was seen as a feeble attempt to mask the obvious Israeli surrender to American pressure. The ambiguity was deliberate, however. Its purpose was to split both Golda Meir's majority coalition and Menachem Begin's minority coalition, and accept the U.S. plan in the form of the Nixon dispatch while keeping the government intact. It was uncharacteristic of Dayan to display a strong attachment to any proposal in the cabinet, but this time he was adamant.[40] And his insistence led to a shift of the entire majority coalition to the option he advocated. There was also an apparent split in the minority coalition.

Dayan knew that the Liberals in the Gahal Party were willing to support a qualified acceptance of the plan. And his scheme to prevent the resignation of the Gahal ministers nearly worked. The Liberals pressured Begin to go along with Dayan's proposal and were narrowly defeated in an intraparty vote. However, in order not to appear to be opposed to a cease-fire that would end the war of attrition, Begin insisted that the government vote twice, once on Dayan's proposal and once on the cease-fire. The vote on the second issue was unanimous. The vote on Dayan's proposal was seventeen ayes and six nays.

Following the decision, Begin faced another fight in his party, this time on the withdrawal of the Gahal ministers from the government. His main rival was Ezer Weizman, who was apparently swayed by Dayan's option to believe that the approach that Gahal represented had some support in the cabinet. Again, Begin had to muster all of his oratory powers to have his way.[41]

While the manipulation effort was successful in that it led to the adoption of the manipulator's option, it was a Pyrrhic victory for Dayan. Virtually everybody was aware that Dayan's proposal constituted an effort to manipulate the Gahal ministers into staying in the government. The

[40] Ezer Weizman, then the minister of transportation, recalled that "the Alignment members were very concerned about the possibility that, if Dayan would be left in the minority he wouldn't hesitate to leave the Government. A situation in which both *Gahal* and Dayan would be out of the Government scared them. Therefore they did almost everything to appease Dayan." An anonymous civil servant observed: "Dayan announced that he would only agree to insert into the body of the text of the American initiative Israel's reservations. During the Cabinet session he was very excited and didn't abstain from shouting. It seemed that this issue was very important to him. Finally, his view prevailed." Quoted by Brecher (fn. 38), 498.

[41] On the party politics aspects of this episode, see Eitan Haber, *Begin: The Legend and the Man* (New York: Delacorte Press, 1978), 280–85; Sasson Sofer, *Begin: An Anatomy of Leadership* (New York: Basil Blackwell, 1988), 90-92; Margalit (fn. 38); and Weizman (fn. 38), 269–75.

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Alignment ministers were willing to go along with this, and it seemed that the Liberal ministers were inclined to go along as well. Yet Begin's persistence and uncompromising stance prevailed over the manipulation effort, forcing all the Gahal ministers to resign.

Nonrational Manipulation: Korea, 1950, and Lebanon, 1982

Framing Effects: The Decision to Intervene in Korea[42]

North Korea's invasion of South Korea on June 24, 1950, caught the Truman administration unprepared in the military or intelligence sense and also, most principally, in terms of policy. Throughout the winter and spring of 1950, and amid reports of an imminent Soviet military move, members of the administration were busy making statements excluding South Korea and Taiwan from the American defense perimeter in the Far East.[43] According to these statements, the United States had no intention of committing military forces to the defense of South Korea. It was willing to help build a strong Korean army and to supply it with the weapons it needed, but there was an interagency consensus that the South Koreans would have to defend themselves if attacked; they could not rely on American forces to do the job for them.

This policy, which had developed over years following many interdepartmental consultations and budgetary allocations, changed from one extreme to the other almost overnight. The decision to intervene was nearly unanimous within the administration. One of the participants pointed out that the decision to intervene in the war revealed "the finest spirit of harmony I have ever known."[44]

The decision to intervene in the Korean War was made in two stages. The first was the June 25 decision to evacuate American citizens from Korea and to repel any attack on the airports or the roads leading to them. The second decision, to commit U.S. air and naval units to the fighting, was made on June 26. Both decisions were reached during what

[42] Sources for this analysis include Alexander L. George and Richard Smoke, *Deterrence in American Foreign Policy: Theory and Policy* (New York: Columbia University Press, 1974), 140–83; Harry S. Truman, *Memoirs: Years of Trial and Hope* (Garden City, NY: Doubleday, 1965); Dean Acheson, *Present at the Creation: My Years in the State Department* (New York: W. W. Norton, 1965); Glenn D. Paige, *The Korean Decision* (New York: Free Press, 1968); idem, *1950: Truman's Decision, the United States Enters the Korean War* (New York: Chelsea House, 1970); idem, "On Values and Science: The Korean Decision Reconsidered," *American Political Science Review* 71 (December 1977), 1,063–69; and De Rivera (fn. 2).

[43] The statements by Dean Acheson, Senator Tom Connally, and John Foster Dulles are given in Paige (fn. 42, 1970), 7–31, 42–45.

[44] *New York Times*, June 28, 1950, p. 4. Quoted in Paige (fn. 42, 1968), 179. Janis (fn. 2), 49–50, takes this as a symptom of groupthink.

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came to be known as "the Blair House conferences," at two separate sessions of the president and his political and military aides. The structure of both conferences was nearly identical. The president opened the discussion by saying that he wanted to hear his advisers' views and recommendations with "an open mind"[45] and then called upon the secretary of state, Dean Acheson, to review the situation and make recommendations. Acheson gave "a darkening report of great confusion"[46] and read a list of operational recommendations, after which the president "asked each person in turn to state his disagreement and any views he might have in addition."[47] The discussions that followed were limited to two issues: the technical and practical implications of Acheson's recommendations and the likely Soviet response.

The group exhibited no dissent, and no other options were suggested. Nor was a "do nothing" option discussed explicitly, though it loomed large as an implicit alternative to Acheson's recommendations.[48] It is difficult to prove that either the president or the secretary of state was engaged in a deliberate plan of political manipulation, but this possibility cannot be rejected out of hand. Several factors suggest that the participants in the discussion may have been victims not only of groupthink but also of a framing tactic of political manipulation.

First, the composition of the advisory group is important. The fifteen men assembled at the conferences in addition to the president were all in charge of foreign policy and national security affairs. None of the individuals present were in charge of domestic political or economic affairs. As a result, the discussion of economic and political implications of the decisions was clearly lacking. The impression of "open mind" that Truman wanted to convey to the group was not evident when Undersecretary of State Webb wished to discuss the domestic political aspects of the situation. The president snapped: "We are not going to talk about politics. I'll handle the political affairs."[49]

Apparently, both Blair House conferences were guided by the dominant definition of the situation and the policy recommendations of Dean Acheson. By conferring the role of the official interpreter of the situation and the responsibility for policy recommendations on one person, the

[45] Paige (fn. 42, 1968), 126.

[46] Acheson (fn. 42), 406.

[47] Truman (fn. 42), 334.

[48] Truman points out that there "was no suggestion from anyone that either the United Nations or the United States could back away from it. This was the test of all the talk of the last five years of collective security." Ibid. Secretary of Defense Johnson stated that during the second Blair House conference, "if we wanted to oppose [direct military intervention], then was our time to oppose it. Not a single one of us did. There were some pointing out of the difficulties . . . and then the President made his decision . . . which I thought was the right decision." Quoted in Paige (fn. 42, 1968), 179.

[49] Quoted in Paige (fn. 42, 1968), 141.

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president in effect set an agenda wherein Acheson's proposals were seen as having the president's stamp of approval. Moreover, in both conferences the defense department did not have policy recommendations of its own, though Secretary Johnson later recalled that "neither I nor any member of the Military Establishment in my presence recommended we go into Korea. The recommendation came from the Secretary of State, but I want to repeat that it was not opposed by the Defense Department all the members of which had severally pointed out the trouble, the trials, tribulations, and the difficulties."[50]

Because the definition of the situation was so gloomy, it was difficult to oppose a unique action alternative. From the outset, the North Korean aggression was presented as having been planned and inspired by the Soviet Union. Seen in this light, the issue was not whether to intervene in a local civil war, as had been the issue for American policy prior to June 24, but rather whether to resist a major Soviet test of American resolve. This is clearly manifested in how the decision makers dealt with Soviet intentions. Not once was the possibility raised that the North Koreans were acting without Soviet knowledge or approval. Virtually all interpretations of Soviet aims implied that the Soviets would have been imprudent to absent themselves from the United Nations Security Council meetings, yet that was what they did. This was explained as being a consequence of delays in the Soviet decision-making process or of a failure on the Soviet part to foresee UN action.[51]

The perception that the invasion was a Soviet ploy to test American resolve switched the reference point to one defining the matter as a grave threat to the national interest. Failure to resist the Soviet-inspired aggression could result in additional Soviet challenges of a more severe and frequent nature, up to a general war. Resistance to this aggression could lead to uncontrolled escalation, but even if it did not, it would certainly result in numerous American casualties. That they may have selected an extremely risky course of action did not escape the decision makers; the dominant view was that it "was a calculated risk."[52] There was even an explicit readiness on the part of both civilian and military participants to escalate the war to a general one.[53] The combined effect of a dichotomous

[50] Secretary Johnson's testimony before the Committees on Armed Services and Foreign Relations. Quoted in Paige (fn. 42, 1968), 164.

[51] Ibid., 132; Acheson (fn. 42), 408. See also Alexander L. George, "American Policy-Making and the North Korean Aggression," *World Politics* 7 (January 1955), 209–32, for additional interpretations of Soviet intentions and their implications for U.S. policy.

[52] Secretary Johnson's testimony, quoted in Paige (fn. 42, 1968), 173.

[53] General Bradley, the chairman of the Joint Chiefs of Staff wrote several months later: "If the defense of South Korea was risking an all-out war the choice was not ours for the Communists had thrown down the gauntlet." Phillip Jessup, the UN ambassador, argued: "The invasion had to be met even if it meant the beginning of World War III." Ibid.

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choice agenda, the presentation of a policy recommendation as if it had come straight from the president,[54] and the framing of the problem as a gamble involving risky prospects made the choices that followed straightforward courses of action and led all participants to believe that they were serving the best interest of the United States.

But all this is not enough to suggest that a deliberate manipulation attempt took place. One may rightfully ask whether a different interpretation of the problem had been possible, and whether—given such an interpretation—a different course of action would have been adopted. Although speculation on that which did not happen is a risky venture, available evidence suggests that other ways to interpret the problem were more than reasonable. In fact, the administration's policy prior to the invasion had been based on an entirely different reference point—the interpretation of the conflict as fundamentally civil, or of little inherent strategic interest to the United States. The situation could easily have been presented by participants at the Blair House conference as it had been presented by Senator Tom Connally in his May 5 interview,[55] namely, that Korea was not a major strategic asset and that the United States should limit itself to furnishing the Koreans with sufficient military and economic aid to resist the communists on their own. The choice could thus have been between continuation of the previous policy toward Korea and military intervention rather than one between military intervention and doing nothing. However, this would have required setting the existing U.S. policy toward Korea as the reference point.

Here, too, the indicators of framing are clearly present. First, the people involved transformed their definition of the situation overnight. The change in the perception of the problem from that of a civil conflict to a Soviet test of U.S. resolve changed the inclination of the group to take risks. Not only was the definition of the situation changed with regard to Korea, but the decision to send the Seventh Fleet to the Formosa Straits suggests that the problem was framed as a general communist ploy involving both the Soviet Union and Red China. Second, the evidence of Soviet involvement in the North Korean invasion available to U.S. policy makers at the time was far more tenuous than the evidence consistent with the preinvasion framing of the problem. Yet no one challenged the dominant Truman-Acheson frame of a Soviet test of American resolve. Although it is obvious that all of the symptoms of the group-

[54] For example, Secretary of Defense Johnson claimed that he had first heard of the recommendation for direct military intervention from the president prior to the second Blair House conference. Ibid., 164.

[55] Quoted in Paige (fn. 42, 1970), 30–31.

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think phenomenon were present, the concurrence-seeking pattern of the members of the Blair House conferences was induced by a change in the administration's framing of the problem. Moreover, a groupthink explanation cannot account for the connection between the new framing of the problem as a choice between losses and the policy recommendation of intervention.

Salami Tactics in Political Decision Making: The Lebanon Invasion of 1982

It is often difficult to detect a master plan in political and military affairs that does not lend itself to multiple interpretations. One of the reasons for this is that decision makers simply do not operate on the basis of grand strategies and master plans; rather, they tend to act as problem solvers and fire extinguishers.[56] The planning and execution of the Israeli invasion of Lebanon is a clear exception in this sense. The political goals of the invasion, its scope, and its precise outline had been put down on paper many months prior to the actual invasion.[57] We therefore know quite well what the goals of the manipulator had been, and we have a good notion of what the invasion was supposed to look like. As envisaged by Ariel Sharon, the Israeli defense minister, the goals of the war were fourfold: (1) to destroy the PLO political and military infrastructure in Lebanon, including the physical elimination or forceful expulsion of the guerrillas from Lebanon, (2) to push the Syrian army out of Lebanon, and (3) to establish a strong Christian-controlled central government in Lebanon that would (4) sign a peace treaty with Israel.[58]

Such far-reaching objectives were unprecedented in Israel's foreign policy, and they carried major operational implications. First, the objectives necessitated occupation of Beirut, Lebanon's capital. Second, they required a major confrontation with the Syrians, with all the attendant risks of escalation. Third, the financial costs and the number of casualties would be considerable. So would be the adverse diplomatic repercussions of a war that could not be construed, even by the wildest stretch of the imagination, as defensive.

[56] Maoz (fn. 2, 1990), chap. 9.

[57] The most explicit delineation of the political goals of the invasion is given in the Sharon-Gemayel agreement of January 1982. The scope and form of the invasion had been set forth in the operational plan prepared by the Israeli army and was given the name Big Pines by the army computer. The plan was presented to the Israeli cabinet in an informal session on December 20, 1981. It was flatly rejected by a majority of the ministers. See Zeev Schiff and Ehud Yaari, *Israel's Lebanon War* (New York: Simon and Schuster, 1984), 47–48, and Avner Yaniv, *Dilemmas of Security: Politics, Strategy, and the Israeli Experience in Lebanon* (New York: Oxford University Press, 1987), 107.

[58] Schiff and Yaari (fn. 57), 45–54; Yaniv (fn. 57), 100–104.

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That Sharon was aware of these implications was obvious from the nature of the Big Pines war plan. This plan called for the frontal movement into Lebanon of two armored columns from the south, as well as for two landings of Israeli forces from the sea in Sidon (about halfway between the Israeli-Lebanese border and Beirut) and Junieh (a city north of Beirut), as well as landings by airborne forces in key strategic positions along the Beirut-Damascus highway. The plan also required immediate confrontation with the Syrian forces and their isolation from the Syrian-Lebanese border before the Syrians could rush in reinforcement. In effect, the Big Pines plan envisioned strategic envelopment of both the PLO and the Syrian forces.

Of course, both the political aims and the military plan were overly ambitious, as Sharon was to learn. On December 20, 1981, in response to a request for a plan for a large-scale attack on the PLO in Lebanon, he presented the Big Pines plan. To Sharon's (and Begin's) dismay, however, this proved too much for the government. Realizing that there was no support in the government for this plan, Sharon modified its scope several times. New versions of the plan were presented to the cabinet, and each time, the scope of the proposed invasion was more modest than in previous plans.[59]

Following an attempt to assassinate the Israeli ambassador to London, the Israeli government approved a much more modest invasion plan. This plan stipulated that the invasion was to be limited to a twenty-five-mile zone north of the Israeli border and that the Israeli forces would make every effort to avoid a fight with the Syrians. But the plan the government had supported would not have accomplished any of the objectives set forth in the Sharon-Gemayel agreement of January 1982. Hence, Sharon's next move was to maneuver the army into a position wherein a clash with the Syrians would be unavoidable. A day after the war started, Sharon

> confronted the cabinet . . . with a request to outflank the Syrians in a manner that would force them to retreat but also ultimately take the IDF to the Beirut-Damascus road many miles beyond the twenty-five mile limit

[59] Yaniv (fn. 57), 107–9, reports at least five such abortive attempts to mobilize governmental support for any sort of invasion: on January 28, twice in March, and on April 11, 1982. At the last of these meetings, the government authorized a large-scale aerial strike on PLO bases. Sharon and Begin hoped that such a strike would provoke the PLO into significant shelling of Israeli villages in the north, which would cause the dissidents in the cabinet to switch choices. This, however, did not happen. Hence they had to wait patiently another two months. Another such meeting took place on May 10. At this point, while there was a majority support for the limited plan, seven out of eighteen ministers, including the two deputies of the prime minister, Simcha Ehrlich and David Levy, voted against it. The plan was again shelved and modified.

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which the cabinet had initially approved. The dilemma, of which Sharon may have been fully aware before, was presented to the cabinet when the war was already in progress. There was no going back, and therefore the cabinet had no logical alternative but to authorize the move. In a vain attempt to prevent turning the outflanking maneuver into a general confrontation with the Ba'ath republic, the cabinet demanded that an approach be made toward Syria promising to avoid confrontation if the Syrian forces would not open fire.[60]

At the point, military considerations took over. Sharon appeared regularly at cabinet meetings requesting authorization to confront Syrian forces that were threatening the advance of the Israeli forces. Each such authorization was deemed necessary because the outflanking maneuver was performed on a route that placed the Israeli troops in a topographically inferior position to Syrian forces. Sharon's argument was that if the Syrians decided to attack, they could use their superior positions to inflict high casualties on the Israeli forces. The cabinet had no choice but to approve the recommended measures.

Ultimately, a number of cabinet ministers realized that they had been the targets of a clever manipulation process wherein they authorized step-by-step the very same plan they had opposed all along. Sharon's requests for the authorization of additional military moves met stiffer opposition. At this point, Sharon resorted to framing. As Yaniv points out, "He was thus thrust into the position of a losing gambler: to stop would mean sustaining an assured loss; to carry on might increase the loss but also the possibility of an ultimate success that would justify all the costs."[61] But this was not only Sharon's personal problem: virtually all the ministers who had played along with Sharon found themselves on the horns of the same dilemma. And this was precisely how the issue was presented to the cabinet during the siege of West Beirut. When requesting authorization for the massive bombing of West Beirut, Sharon framed the problem as a choice between the loss of what had been accomplished thus far (and giving the PLO a major political victory) and the criticism of the entire world following the shelling of a populated city. The cabinet again had to go along with the plan.[62]

[60] Ibid., 113.

[61] Ibid., 115.

[62] Sharon had consistently authorized the army to advance and perform operations that had no cabinet approval and that would almost certainly have been turned down by the cabinet. Yet precisely these moves forced the cabinet to approve other measures that violated the members' better judgment. For example, on June 21–22, 1982, Sharon ordered the army to improve its positions along the Beirut-Damascus highway and in the outskirts of West Beirut, despite a previous cease-fire agreement. This was done without cabinet approval and resulted in numerous Israeli casualties. Once the cabinet learned of these incursions, Sharon was promptly ordered to cease fire. He refused. A special cabinet meeting was called on June

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The Lebanon case illustrates the decision makers' heightened vulnerability to manipulation in times of crisis-induced stress. Each of the decisions the Israeli cabinet made during the war had an extremely short deadline attached to it. Options that were raised by ministers other than Sharon were rejected out of hand because there was no time to analyze their implications. The most extreme cases were the decisions to enter West Beirut and to send the Phalange militia into the refugee camps of Sabra and Shatilla, the latter of which resulted in a brutal massacre.[63]

It is difficult to ascertain the extent to which Sharon was the sole mastermind of the manipulation campaign. Opinions are divided on whether Prime Minister Begin was an accomplice or a victim. What is clear, however, is that this process of manipulation brought about the first defeat in war in Israel's history. The prolonged and painful Israeli experience in Lebanon was a direct consequence of a flawed decision process, during which experienced politicians were pawns in the hands of one of their colleagues.[64]

Conclusion

The cases discussed above demonstrate several things about the process and outcomes of political manipulation. First, manipulation may be used by those in the minority who face the prospect of having their worst alternative selected by the policy group. This was the case both in the Cuban missile crisis and in the Lebanon War. But it can also be used as a tactic by powerful group members who want to generate widespread support for a policy that could otherwise become a source of contention. This was demonstrated in the Rogers initiative and in the Korean decision. Second, several tactics of political manipulation may be employed

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24, but "since by then the operation was nearly completed and much blood had already been spilt, Sharon once again succeeded in prevailing upon his weak and bewildered colleagues. The cabinet at last approved continuation of the attack on Alei-Behamdoun, and it was completed two days later." Ibid.; Schiff and Yaari (fn. 57), 203–7.

[63] On the implications of these manipulations for the outcome of the Lebanon War, see Zeev Maoz, "Power, Capabilities, and Paradoxical Conflict Outcomes," *World Politics* 41 (January 1989), 239–66, and Maoz (fn. 28), chap. 10. It must be noted that manipulation of the government was suspected all along and opposed by key people both in the army, for example, the chief of military intelligence, General Saguy, and in the Labor Party, whose leaders were informed of the imminent invasion and repeatedly expressed reservations regarding its proposed scope and general wisdom. See Schiff and Yaari (fn. 57), and Aryeh Naor, *Memshalah bemilhama* [Cabinet at war] (Tel Aviv: Lahav, 1986).

[64] On this decision, see Zeev Maoz, "Multiple Paths to Choice: An Approach to the Analysis of Foreign Policy Decision," in Irmtraud N. Gallhofer, Willem E. Saris, and Marianne Melman, eds., *Text Analysis Procedures for the Study of Decision Making* (Amsterdam: Sociometric Research Foundation, 1986), 69–96. In the Cuban missile crisis, though time pressure was definitely a factor, the participants in the ExCom had, relatively speaking, more time to explore multiple courses of action.

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simultaneously. In the Lebanon case, the manipulator employed framing and sequencing at the same time. Another interesting example is the introduction of the blockade alternative by McNamara during the Cuban missile crisis. The following paragraph illustrates very nicely the linkage between framing of the decision problem and the advocacy of a policy option.

> McNAMARA: Now, the second alternative I'd like to discuss just a second, because we haven't discussed fully today, and I alluded . . . to it a moment ago. I'll be quite frank. I don't think there is a military problem here. This is my answer to Mac's [McGeorge Bundy's] question . . . and therefore . . . I asked myself, Well, what is it then if it isn't a military problem? Well, it's just exactly *this* problem, that . . . if Cuba should possess a capability to carry out offensive actions against the U.S., the U.S. should act. . . . This is a domestic political problem. The announcement—we didn't say we'd go in and . . . kill them, we said we'd *act*. Well, how will we act? Well we want to act to prevent their use, and it's really the . . . act. Now, how do we . . . act to prevent their use? Well, first place, we carry out open surveillance, so we know what they're doing. All times. Twenty-four hours a day from now and forever, in a sense indefinitely. What else do we do? We prevent any further offensive weapons coming in. In other words, we blockade offensive weapons.[65]

The blockade option was introduced not only as a majority-splitting alternative but also as a solution to a definition of the problem as a challenge to U.S. commitment and its willingness to carry out threats.

Third, political manipulators can take advantage of situations or manipulate situations so that their tactic is effective. The Lebanon case shows that setting short deadlines for each decision in the sequence can be an effective mechanism for obscuring the pattern of decision into which group members are being cast. Thus, not only is political manipulation more feasible under certain situations, but manipulators may actually structure the situation to their advantage.

Political manipulation may have its pluses, certainly for the manipulator, but also for the manipulated. The present study does not attempt to relate the procedural rationality of the manipulation tactic to the substantive quality of the decisional outcome. Whether such a relationship exists is left for future research to determine. Even in the absence of such a relationship, however, decision makers must be aware of the fact that a certain decisional outcome has been induced by shrewd manipulation tactics and that, without those tactics, another outcome might have obtained. When political manipulation induces choices that counter the social preference, it is important that the group know, first, that it is being manipulated, and, second, how to evade or circumvent these tactics.

[65] *Transcripts*, October 16, 1962, pp. 45–46.

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Some general rules apply. One is that awareness of an attempt at political manipulation is the first step in rendering it ineffective if one so wishes. Second, sharing that knowledge with other group members can be a good way of reducing the effectiveness of the political manipulation tactic. Third, when the manipulator is powerful in some respects that are crucial to the success of his or her tactics (for example, when the manipulator has the formal authority to set the agenda), the best antidote for one political manipulation tactic is another political manipulation tactic. Fourth, the four tactics of political manipulation capitalize on the tendency of people to choose sincerely, that is, in direct accordance with their preferences. Hence, sophisticated choice via tacit or explicit coalition formation provides an effective tool to counter political manipulation.

In addition to the evasion tactics mentioned above, the suggestions of various scholars regarding other remedies of defective group choices also apply. In particular, multiple advocacy, open discussion, and multiple channels of information[66] do more than safeguard against other forms of defective decisions that are due to the structure and dynamics of group decision making. They can also alert decision makers to manipulation efforts and help them resist those efforts that can harm the aims pursued by the group.

This essay barely scratches the surface of the study of political manipulation in foreign policy decisions. The topic has been underresearched, and the purpose of this study is to highlight some of the possible avenues for additional work in this area. Future research might better explore the differences between political manipulation and other forms of personal influence in policy groups, additional tactics of manipulation, conditions facilitating such tactics, and prevention measures.

[66] See in particular George (fn. 8), 139–216; Janis (fn. 2), 260–76; Janis and Mann (fn. 5), 367–404; Daniel D. Wheeler and Irving L. Janis, *A Practical Guide for Making Decisions* (New York: Free Press, 1980); Yehuda Ben-Meir, *National Security Decisionmaking: The Israeli Case* (Boulder, CO: Westview Press, 1986), 129–44; and Janis (fn. 9).

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THE STATE AND THE EFFECTIVE CONTROL OF FOREIGN CAPITAL

The Case of South Korea

By RUSSELL MARDON*

I. Introduction

THE pattern of industrial development in the Republic of Korea (hereafter referred to as Korea) offers several important insights into the broader theoretical debate on the political economy of development. Among these is a significant issue regarding the integration of foreign capital into the process of domestic industrial development and its effect on domestic entrepreneurial activity. The Korean case offers insight on this issue because Korea is one of the few developing countries actually experiencing a diversified industrialization process; more importantly, it does so because in this industrial development the means of production are predominantly owned by domestic actors, and local market shares are predominantly controlled by domestic producers. This pattern of development is significant in that it is not predicted and cannot be adequately explained within the framework of either of the dominant schools of thought on economic development: the neoclassical and the dependent development school.

Neoclassical analysis views foreign capital and technology as a precondition to the initiation and maintenance of an efficient industrialization process. Its proponents argue that developing economies which are open to foreign investment can receive the benefits of foreign capital, technology, and market expertise that are absent from domestic sources. They see foreign ownership of the means of production as a positive force that leads to industrial growth and to the integration of the developing economy into the world market.

Neoclassical studies focused on Korea have generally attributed industrial growth to correct policy choices that effectively oriented the domestic economy to international market forces.[1] To attribute Korea's

* I would like to thank Robert Jackman for his comments and suggestions. I would also like to thank the Department of Political Science, Michigan State University, for assistance I received while conducting the early stages of this study.

[1] See Bela Balassa, ed., *Development Strategies in Semi-Industrial Economies* (Baltimore: The

World Politics 43 (October 1990), 111–38

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economic success to market forces alone would be to ignore the highly active role of Korean political institutions in comprehensive sectoral planning, in controlling the pattern of investment, in providing subsidies, monopoly rights, and market protection to domestic producers, and its strict regulation of foreign capital inflows. The neoclassical model cannot fully specify an industrial development experience led by high levels of state guidance over primary economic activities.

Theorists of dependent development agree that foreign capital and technology can lead to industrial growth in a developing nation. In order to attract the level of foreign capital and technology that is requisite for industrial development, however, political structures must orient economic policy to the interests of foreign capital.[2] This, in turn, leads to an absence of domestic industrial entrepreneurship, as well as to foreign ownership of the means of production, foreign control of the domestic market, and the expropriation of national surplus.

The dependent development explanation is severely limited when applied to the case of Korea, where foreign capital has not been the primary beneficiary of industrial growth. The levels of foreign investment and foreign control of domestic markets are extremely low when compared to those of domestic investment. Firms such as Hyundai, Samsung, Daewoo, and Gold Star have dominated production and monopolized domestic market shares in nearly all sectors. Nationally controlled capitalist development of this scope and magnitude at the periphery was never envisioned by the dependent development school.

The logic of both neoclassical and dependent development predicts—although opinions differ on the net effect of benefits derived—that where industrialization does occur in the developing world, it is characterized by foreign ownership and foreign dominance of local markets. Among those developing nations that have experienced industrial growth, however, the empirical pattern of foreign ownership varies greatly, as does the pattern of foreign control over local markets. This suggests that variations of domestic political structures and the imple-

Johns Hopkins University Press, 1982), and *The Newly Industrializing Countries in the World Economy* (New York: Pergamon, 1981); Edward K. T. Chen, *Hypergrowth in Asian Economies* (London: Macmillan, 1979); Larry Westphal, "The Republic of Korea's Experience with Export-Led Industrial Development," *World Development* (June 1978), 347–82; World Bank, *World Development Report* (New York: Oxford University Press, 1983); Anne O. Krueger, *The Developmental Role of the Foreign Sector and Aid* (Cambridge: Harvard University Press, 1979).

[2] See Peter Evans, *Dependent Development: The Alliance of Multinational, State, and Local Capital in Brazil* (Princeton: Princeton University Press, 1979); Fernando Cardoso, "Associated Dependent Development," in Alfred Stepan, ed., *Authoritarian Brazil* (Princeton: Princeton University Press, 1979); Guillermo O'Donnell, *Modernization and Bureaucratic Authoritarianism: Studies in Latin American Politics*, Politics of Modernization Series No. 9 (Berkeley: Institute of International Studies, University of California, 1973).

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mentation of alternative development strategies may have an important influence on establishing a country's linkages with the international economy and on foreign economic integration into the developing economy.

Recent studies have systematically examined Korean political structures and institutions in relation to economic performance. They document that government intervention extends deeply into several key areas of economic activity.[3] It is becoming increasingly clear that industrial development in Korea can be properly specified only when attention is focused on political as well as economic factors. These findings, and the inability of leading theoretical perspectives to explain the pattern of foreign capital integration into the Korean economy, pose an interesting set of questions. Are domestic political factors largely responsible for shaping the pattern of foreign capital integration into the Korean industrialization process? And if so, did this pattern of foreign capital integration facilitate the growth of domestic industrial entrepreneurship and control over the local market?

The present study attempts to answer these questions. It focuses on the governmental strategies and mechanisms utilized to shape a pattern of foreign economic inflows into Korea that provided the capital and technology necessary for industrial development but minimized the level of foreign ownership and market control. Prior to an examination of legal and bureaucratic instruments and their interaction with international economic forces, it is necessary, however, to understand the significant level of political autonomy enjoyed by Korean political leaders during the process of industrial development. This autonomy has allowed the Korean government to pursue an economic policy relatively independent of domestic social forces and international pressures.[4] Without this high level of autonomy, the nationalistic economic policies described below could not have been designed and implemented consistently.

[3] See Leroy Jones and Il Sakong, *Government, Business, and Entrepreneurship in Economic Development: The Korean Case* (Cambridge: Harvard University Press, 1980); Chalmers Johnson, "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan," in Frederic C. Deyo, ed., *The Political Economy of the New Asian Industrialism* (Ithaca, NY: Cornell University Press, 1987); Stephan Haggard, Byung-kook Kim, and Chung-in Moon, "The Transition to Export-Led Growth in Korea," presented at Conference on the Role of the State in Economic Development: Republic of Korea (University of California, Los Angeles, August 14–16, 1987); Young-Il Lim, *Government Policy and Private Enterprise: Korean Experience with Industrialization* (Berkeley, CA: East Asian Institute, 1981).

[4] Stephan Haggard and Chung-in Moon, "The South Korean State in the International Economy: Liberal, Dependent, or Mercantile?" in John Ruggie, ed., *The Antinomies of Interdependence* (New York: Columbia University Press, 1983), 140; Chalmers Johnson (fn. 3), 151; Hagen Koo, "The Interplay of State, Social Class, and World System in East Asian Development: The Cases of South Korea and Taiwan," in Deyo (fn. 3), 175.

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Three political conditions served to insulate the state's decision-making capacity from external influence. First, when the military government took power in 1961, the powerful social groups who traditionally tend to dominate political power in Third World countries did not exist in Korea. Land reforms in 1947 and 1950 had virtually eliminated the landed class.[5] A merchant class whose power was tied to its ability to gain access to aid funds and government-issued import licenses began to emerge in the 1950s;[6] but, with the fall of Syngman Rhee in 1960, the source of its economic and political power was virtually eliminated.

A second precondition was the absence of entrenched foreign investment and other established ties to the international economy. With the defeat of Japan, all linkages between foreign capital and the Korean comprador elite had been severed. In 1961, there were no foreign investments in place in Korea, and less than 1 percent of GNP was earned through exports.[7] In countries where the ruling elites are in a comprador position—that is, where they have established personal wealth and vested interests interlinked with foreign capital—the state does not possess the necessary capacity and commitment to organize governmental mechanisms for the effective regulation of that foreign capital. The Korean leadership of 1961 had no significant ties to foreign capital. Rather, the new military leaders perceived that their personal political and economic interests, as well as those of the state, would be best served by the development of industrial production based upon government-directed sectoral planning. A domestic industrial class could be expected to follow the government's economic guidance through state control of banks and investment funds while foreign capital could not be expected to do so. The government was therefore strongly committed to nurture the development of domestic firms and restrict the inflow of foreign capital.

A third precondition that enhanced the capacity of the Korean government to implement a nationalistic policy toward foreign capital was the country's strategic relationship with the United States. Even though Korea discriminated against American capital and goods, Korean producers had virtually unlimited access to the American market as well as extensive access to American and international aid funds. In many other developing countries, the implementation of similar foreign capital policies would have met with international sanctions. Washington tolerated

[5] Krueger (fn. 1), 21; Joungwon Alexander Kim, *Divided Korea: The Politics of Development, 1945–1972* (Cambridge: East Asian Research Center, Harvard University, 1975), 128; Jones and Sakong (fn. 3), 210; David C. Cole and Princeton N. Lyman, *Korean Development: The Interplay of Politics and Economics* (Cambridge: Harvard University Press, 1971).

[6] Krueger (fn. 1), 161; Jones and Sakong (fn. 3), 275–78; Haggard and Moon (fn. 4), 144.

[7] Bank of Korea, *Economic Statistics Yearbook*, 1973.

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these policies largely because of the important role Korea has played in supporting what was perceived as a vital American security interest in northeast Asia. Because of this security relationship, Korea has been able to pursue nationalistic economic policies without assuming many of the costs ordinarily associated with them.

After the military coup, institutional changes further reinforced the autonomy of the Korean state. In 1961, major reforms placed all banks and investment decisions under the control of the government.[8] These reforms, established through a combination of incentives and coercion, made all Korean enterprises subservient to the government's guidance as they became dependent on it for funding their survival and expansion. In addition, the government assumed control over trade unions and farmers' cooperatives.[9] When these conditions combined to form a politically insulated state, governmental elites were able to conduct foreign economic policy independent of the interests of any particular societal group.

Although the existence of a politically autonomous state does not assure any particular type of economic performance, a high degree of state autonomy may well be a necessary precondition if political institutions and policies designed to control foreign economic penetration are to be developed and consistently maintained throughout a process of industrial development. Not many developing countries possess the political autonomy necessary to implement such policies.

II. Legal and Bureaucratic Mechanisms of Control over the Sectoral Flow of Foreign Capital and Technology[10]

Since the military regime came to power in 1961, the enhancement of national sovereignty, both strategic and economic, has been the primary objective of the Korean government. In the economic sphere, this has meant rapid industrial expansion. To achieve this objective, the state

[8] Koo (fn. 4), 173; Edward Mason et al., *The Economic and Social Modernization of the Republic of Korea* (Cambridge: Harvard University Press, 1980), 336–37.

[9] Koo (fn. 4), 171.

[10] This study draws on several sources of primary data collected by the author while conducting field research in Korea between August 1984 and December 1986, and during the summer of 1988. These data fall into three general categories: (1) statistical yearbooks and other sources of published Korean government data and policy papers; (2) internal government documents made available to the author by government officials who were interviewed for this study (interviews were conducted with approximately 60 government officials who were directly involved in formulating and implementing economic policy); (3) data obtained from approximately 75 foreign business and banking officials in Seoul who agreed to complete questionnaires and to be interviewed.

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pursued a strategy to develop key "strategic" industries. It established powerful institutions, such as the Economic Planning Board, to design and implement a series of five-year plans that sequentially targeted sectoral development. With regard to the inflow of foreign capital, these plans were highly detailed in identifying specific projects and technologies explicitly delineating the sectors and projects where domestic producers possessed the necessary technical know-how as well as those for which foreign technical expertise was necessary. Foreign capital and technical inflows were coordinated with development plans. Projects for which domestic technical knowledge was adequate were closed to foreign penetration, while those for which foreign technical assistance was necessary were designated as open to foreign penetration. These plans and the designated "closed" and "open" sectors were strictly adhered to in the implementation of industrial development because the Korean leadership feared that financially strong and technologically advanced foreign firms would undermine the development of domestic firms and the ability of the state to control key economic and political decisions.

The government therefore established elaborate legal and bureaucratic mechanisms designed to guide foreign capital inflows into a pattern that would enhance the implementation of development plans while it did not hinder the advancement of domestic enterprises.[11] Foreign investment was considered to benefit the Korean national interest only when it produced in a manner that complemented official planning—principally by developing targeted import substitution industries that were technologically too complex for domestic producers, or by producing exports that earned foreign exchange. Foreign investment was not considered beneficial to national objectives when it competed with domestic firms on the Korean market.

Control over the inflow of foreign capital and technology was legally established under the Foreign Capital Inducement Act (FCIA) of 1961 and its subsequent revisions. The FCIA became the principal legislation to control the inflow of foreign capital loans, foreign direct investment, and foreign technology. It was designed to increase the attractiveness of lending to and investing in Korea while placing the control of the pattern of inflows in government hands.

Under this act, the government guaranteed the repayment of all foreign capital loans flowing into Korea; these required the approval of the Economic Planning Board (EPB) which, in turn, was contingent on their

[11] Bohn-young Koo, *Industrial Structure and Foreign Investment: A Case Study of Their Interrelationship in Korea* (Seoul: Korean Development Institute, Working Paper No. 8402, 1984), 7.

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flowing to industries targeted by state development plans. This screening process allowed the state to control the size and sectoral direction of foreign loans entering the Korean economy.[12]

The FCIA is also the principal legal document by which the government induces and regulates direct foreign investment and foreign technological inflows. This act guarantees the right of foreign firms to repatriate profits and offers generous tax and other financial incentives to foreign investment in "open" sectors that have been approved by the EPB.[13] The approval process is also tightly controlled under the act, and only those foreign inflows perceived to be complementary to the state's industrial development strategy are allowed to enter the Korean economy.[14]

All foreign investment proposals submitted under the FCIA are required to specify the nature of the project, the level and source of investment capital, the specific technology that will be transferred, the ratio of capital to labor, the methods of training and promoting local personnel, the projected levels of output, the ratio of output to exports, and the ratio of foreign to domestic equity holdings. By requiring a well-specified investment proposal, the government can calculate the impact of that in-

[12] In an interview, Bohn-young Koo, Special Economic Advisor to the Minister of the Economic Planning Board, explained the loan approval procedure. He emphasized that, in order to approve a foreign loan, the government must be convinced that a high level of certainty exists that the borrowed capital will generate a rate of return in excess of interest payments; that it will aid the balance of payments; that it will flow to a targeted industry; and that it will flow to a producer with sufficient technical and marketing expertise to meet projected output levels.

Koo's argument was strongly supported by my 1986 survey of 18 major American, Japanese, British, and French bank officers in Seoul. All of them agreed that the screening process allows the state to control the size and sectoral flow of all foreign capital loans. They further agreed that the screening process assures a high level of certainty that foreign loans will aid the balance of payments. Moreover, all but two of the bank officers in the survey agreed that the screening process assures a high level of certainty that borrowed funds will flow to targeted industrial development.

One bank officer who had served in Brazil for five years in the 1970s asserted that in Brazil, the government had little idea of where foreign loans would flow or whether they would lead to increased production. Often, loans were not monitored and were used for consumption. In Korea, the state monitors foreign loan funds closely to ensure that they flow only into approved investment and that output projections are met after the production facility becomes operational.

[13] Dong Sung Cho, "Incentives and Restraints: Government Regulation of Direct Investment between Korea and the United States," in Karl Moskowitz, ed., *From Patron to Partner* (Cambridge: Harvard University Press, 1985), 45; Ministry of Finance, *Investment Guide to Korea* (Seoul: Ministry of Finance, 1984), 19; Larry Westphal et al., *Korean Industrial Competence: Where It Came From* (World Bank Staff, Working Paper No. 469, 1977), 18.

In 1981, the making of approval decisions on foreign capital and technological inflows was transferred to the Ministry of Finance. For a comparison of incentives to foreign investment offered by various governments in Asia, see "Special Survey of Foreign Investment in Asia," *The Economist*, June 23, 1979, pp. 8–9.

[14] Koo (fn. 11), 18, 26–28.

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vestment on the Korean economy and increase the state's capacity to monitor and control the foreign investor's activity after arrival.

To implement and enforce the FCIA and to regulate interaction with the international economy in general, the state developed elaborate bureaucratic mechanisms. The principal agency in this regard has been the Foreign Capital Deliberation Committee which was first attached to the EPB and then transferred to the Ministry of Finance in 1981. The membership of this committee is made up of high-ranking officials from the various economic ministries. All foreign loan applications, investment proposals, and technological transfer agreements must be approved by this committee. Every proposal for foreign economic inflows is individually passed from the Foreign Capital Deliberation Committee to the ministries concerned with the subject matter. It is then reviewed in detail by each ministry to assess its economic and technological impact on the Korean economy as well as its political desirability.[15] All of the ministries must approve each individual foreign inflow before the Foreign Capital Deliberation Committee can approve it. If the Ministry of Finance considers a proposal to be unfavorable to the balance of payments, if the Ministry of Trade and Industry considers it to be in competition with a domestic producer, or if the Ministry of Science and Technology rules that the proposal calls for the importation of technology already available on the domestic market, the application is denied.

The fact that a sector or project is listed on the FCIA as open to foreign investment does not guarantee that a proposal in that area will be approved by the government. The FCIA merely identifies general sectors that are open for proposed foreign activity; it provides guidelines for those foreign inflows that the government may desire and legal prohibitions on those it does not. The highest level of the bureaucracy maintains the authority and capacity to rule on a specific foreign inflow based upon its analysis of the impact of that inflow on the Korean economy.

If more than one foreign investor is interested in investing in a particular sector or project, the government will use investment proposals as bids and will bargain with the competing foreign investors to make the terms of their proposals more advantageous to Korean economic interests. For example, the Dupont Corporation proposed to build a $150 million production facility to produce TIO_2, a whitening agent used in many products manufactured in Korea. (The domestic chemical industry does not possess the capacity to produce TIO_2.) According to the FCIA, a foreign investor can legally hold 100 percent of equity in a TIO_2 project;

[15] Cho (fn. 13), 46–47.

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that is what Dupont proposed to do. While the Foreign Capital Deliberation Committee was reviewing Dupont's proposal, Kerr McGee submitted a plan to build a similar facility as a joint venture with a Korean firm. The committee, without officially rejecting Dupont's proposal, notified Dupont of the Kerr McGee project and suggested that Dupont also find a joint venture partner. According to the general manager of the Dupont operation in Seoul, the only way Dupont will get approval, regardless of the FCIA, is to outbid Kerr McGee by offering a greater degree of technological transfer and by requesting fewer financial incentives. Dupont has since resubmitted its proposal as a joint venture with a Korean partner.

Thus, the legal and bureaucratic mechanisms are directly intended to manage foreign economic penetration into the Korean economy so as to assure that it flows to sectors that fit the country's development planning. The objective is to control and shape foreign capital inflows into a sectoral pattern that complements the broader economic and political objectives of the state rather than the specific interests of foreign capital.[16]

III. Decoupling Foreign Penetration to Enhance the Expansion of Domestic Enterprise

In its attempt to steer foreign inflows into a pattern that would facilitate the growth of domestic enterprises, the Korean government has adopted a policy of "decoupling" foreign capital and foreign technology from foreign direct investment. It attempts to deliver necessary components to domestic producers rather than to allow foreign investors to provide the entire package of production.

Korean leaders have consistently viewed uncontrolled foreign direct investment as highly threatening to national development goals due to the foreign economic and political influence it tends to engender and to the expropriation of capital that occurs over the long term.[17] Although Korean economic planners realized that foreign capital and technology would be necessary to facilitate rapid industrial expansion, they actively restricted foreign direct investment and assisted domestic firms to acquire necessary capital and technology wherever a targeted sector could be developed without foreign ownership.

[16] T. Jefferson Coolidge, Jr., "The Realities of Korean Foreign Investment Policy," *Asian Affairs* 12 (July/August 1981), 370–85; Dal-joong Chang, *Economic Control and Political Authoritarianism: The Role of Japanese Corporations in Korean Politics 1965–1979* (Seoul: Sogang University Press, 1985), 174–78.

[17] Moskowitz (fn. 13), 11.

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Korea has tended to view foreign capital loans as a more desirable form of foreign capital penetration than direct investment.[18] For both political-strategic and economic considerations, Korean economic planners considered long-term concessional loans in particular as more desirable than direct investment. Loan funds could be channeled to domestic producers by the state's financial institutions. Korean ownership would reduce dependence on foreign producers and (at least in principle) assist producers who were more tied to national security and national survival than foreign concerns would be.[19] As long as borrowed funds generated productive outcomes, loans were perceived to be less costly to the national economy than direct foreign investment. Loans do produce an immediate drain on the national economy, but when they are paid off, domestic ownership and further profits remain in the country. By contrast, foreign direct investment continually drains the economy through repatriation of profits and transfer pricing. "From a long-term point of view, the burden of foreign exchange outflow is greater on equity investment than on loans."[20]

As a result, foreign direct investment has played a minor role in Korean capital formation, and loans have played a much more significant

[18] In an interview, Bohn-young Koo stated that "loans have always been preferred over direct investment because more benefits stay in Korea. Direct foreign investment is restricted to those projects where foreign marketing or technical skills are required. If only capital was required, the government would attempt to borrow it. After the 1974 oil shock, when funds became readily available, this strategy could be followed relatively easily."

In a survey of foreign bank officers in Seoul (see fn. 10), 81% of respondents stated that the government has consistently followed a strategy of encouraging loans for foreign capital needs.

[19] This conclusion is based upon a series of interviews and questionnaires (see fn. 10). According to the International Monetary Fund's representative in Seoul, "the Korean foreign capital accumulation strategy has been to borrow capital and license technology wherever possible in order to avoid foreign equity ownership." The general manager of the Chase Manhattan Bank in Seoul asserted that "it has been the conscious and managed policy of the Korean government to use external borrowing to promote growth of the economy. At the same time, it is the conscious and managed policy of the Korean government to ensure that domestic industry is not foreign-controlled. That means more debt and less foreign equity."

The general manager of Dupont in Seoul maintained that "if technology is locally available, a direct foreign investment will simply not be allowed"; a senior official with Westinghouse stated, "the Koreans would prefer to operate totally without foreign investment if that would be possible."

According to 92% of the foreign bank officers surveyed, Korean borrowing to finance foreign capital requirements has allowed a greater degree of national control over major economic decisions than a similar level of foreign direct investment would have.

[20] *Study on the Criteria for Foreign Direct Investment and Joint Venture in Korea* (Seoul: International Management Institute, Korea University, 1972), 54–56. In interviews, this argument was also made by Kwan-tae Shin, Deputy Director, Investment Promotion Division of the Korean Ministry of Finance; by Bohn-young Koo, Special Economic Advisor to the Minister of the Economic Planning Board; and by Dong-gyu Shin, Assistant Director of the Foreign Capital Policy Division of the Ministry of Finance. Also see Sung-hwan Jo, *Direct Foreign Private Investment in South Korea: An Economic Survey* (Seoul: Korean Development Institute, Working Paper No. 7707, 1977), 68.

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part. Between 1962 and 1971, direct foreign investment constituted only 4 percent of net inflow of foreign capital; between 1972 and 1976, 7.9 percent; and between 1976 and 1984, less than 4 percent.[21] Comparison with other industrializing countries shows that direct foreign investment between 1967 and 1971 constituted only 3.7 percent of net foreign capital inflow in Korea, while the comparable figure was 33.8 percent in Brazil, 36.6 percent in Mexico, and 26.1 percent in Thailand. Between 1972 and 1976, a period when import substitution engendered several large capital-intensive foreign investments in Korea, the ratio of direct foreign investment to net foreign capital inflow was still only 7.9 percent, as compared to 22.9 percent in Brazil, 16 percent in Mexico, and 28 percent in Thailand.[22] The reason for this difference is that Korea's development strategy has limited foreign direct investment strictly if its principal contribution was merely a source of capital, and has encouraged foreign loans that could be channeled to Korean producers.

In addition, any necessary foreign technology has preferably been adopted through licensing agreements. This policy, again, is intended to facilitate the development of domestic production and to reduce the level of penetration of foreign direct investment.[23] In targeted sectors, where domestic technology was inadequate to meet planned production requirements, Korea preferred to license technology and to pay the necessary licensing fees rather than to allow direct foreign investment. The Ministry of Science and Technology has developed bureaus and "think tanks" whose staffs spend the majority of their time attempting to locate foreign technological sources willing to lease technology to Korean producers. With the right combination of loans and access to technology, rapid economic expansion could be accompanied by maximum levels of domestic ownership and control over the production apparatus.

Foreign direct investment was preferred and sought after only if it could provide a technology that was necessary to develop a targeted sector, and if that technology was not available domestically or through a technological license. The government offered attractive economic incentives when a particular technology was deemed crucial to the development of a targeted sector, and when it was available only through foreign investment. Economic incentives were also available to export producers, but other types of investments were restricted. By these means, the Korean state was able to shape the pattern of its interaction

[21] *Major Statistics of the Korean Economy* (Seoul: Economic Planning Board, 1985).

[22] Economic Analysis and Projections Department: International Bank of Reconstruction and Development, *Consolidated Balance of Payments* (Washington, DC: World Bank, May 19, 1978).

[23] Moskowitz (fn. 13), 11.

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with the international economy and to facilitate national ownership of the means of production.

IV. The Empirical Pattern of Foreign Direct Investment

The inflow of foreign direct investment into Korea has been channeled to sectors designated for development and into projects where Korean producers lacked independent technical capacity.[24] In the early stages of industrial development, for example, foreign investment was channeled into the development of synthetic fibers for textile production and into major import substitution projects in petroleum refining and chemical fertilizers. By 1968, these sectors contained 75 percent of all foreign investment in Korea. Once these import substitution investments were in place, the government designated textiles and electronic consumer goods as sectors for export. In turn, these exports were intended to finance the development of capital-intensive chemical and heavy industrial sectors. Throughout the 1970s, that is where foreign investment was principally channeled. By 1980, foreign investment was concentrated in chemicals (25 percent), machinery (16.7 percent), electronics (12.2 percent), metal products (4.8 percent), and construction (4.5 percent).

Because the state has attempted to minimize the level of foreign investment by limiting its entrance into only those sectors and projects that were considered necessary for and compatible with its development objectives, the size of foreign direct investment equity holdings in Korea is minimal compared to total stock or to total foreign capital usage.[25] Between 1962 (when the first foreign investment was accepted) and 1985, only $2.65 billion of foreign investment was approved by the government, and only approximately $1.9 billion actually arrived.[26] Foreign direct investment has been effectively excluded from most sectors that produce consumer goods. Unlike most developing countries, it has also been effectively excluded from agricultural and other primary production sectors. (See Table 1.) Restrictions on foreign firms owning land and on

[24] Charles A. Barone, "Dependency, Marxist Theory, and Salvaging the Idea of Capitalism in South Korea," *Review of Radical Political Economics* 15, no. 1 (1983), 48. In a survey of 45 foreign investors in Korea (fn. 10), 100% of the respondents asserted that the Korean state exercised much more control over the pattern of direct foreign investment than other capitalist developing states with which they were familiar. All respondents also maintained that the Korean government effectively excluded foreign investment in areas where domestic producers could meet production demands.

[25] Koo (fn. 11), 26–28.

[26] Ministry of Finance data (fn. 10). For the same period, comparable figures are: almost $8 billion in foreign direct investment in Taiwan, $17 billion in Mexico, $24 billion in Brazil, and $7 billion in Singapore (U.S. Department of Commerce, Overseas Business Reports, 1987).

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TABLE 1
FOREIGN INVESTMENT BY ECONOMIC SECTOR
(NUMBER OF PROJECTS)

	1962–66	*1967–71*	*1972–76*	*1977–81*	*1982–85*	*Total*	*Percent*
Mining and Agriculture	1	8	26	15	16	66	5.6
Manufacturing	14	139	391	149	283	976	82.3
Foodstuffs	1	4	3	5	28	46	3.9
Textiles	3	15	44	5	6	73	6.2
Wood products	—	—	2	1	—	3	0.3
Chemicals	—	20	56	24	36	136	11.5
Medical products	3	4	3	4	28	42	3.5
Fertilizer	2	—	2	—	—	4	0.3
Petroleum	1	2	1	—	1	5	0.4
Ceramics	—	7	12	3	7	29	2.4
Metals	—	13	33	17	20	83	7.0
Machinery	1	19	62	37	51	170	14.3
Electronics	3	27	121	21	66	238	20.0
Transportation	—	1	4	2	2	9	0.7
Other	1	26	48	25	38	138	11.6
Social Overhead Capital	—	17	33	33	61	144	12.1
Finance	—	2	3	5	7	17	1.4
Construction	—	7	9	11	35	62	5.2
Electricity	—	—	—	2	—	2	0.2
Transportation	—	5	4	4	2	15	1.3
Hotels and tourism	—	3	17	11	17	48	4.0
Total	16	163	450	197	360	1,186	100.0

SOURCE: Ministry of Finance documents (Seoul, December 31, 1985); based upon approval of investment applications.

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those investing in agriculture, mining, or consumer goods production are strictly enforced.

Of the total value of foreign investment approved since 1962, 59.2 percent is in manufacturing and 40 percent is in service-related sectors.[27] (See Table 2.) Manufacturing investments have been heavily concentrated in chemicals, electronics, and machinery; together they account for 39.3 percent of total foreign direct investment, or 66.3 percent of total manufacturing foreign investment. These three industries, combined with textiles, transportation equipment, metal products, medical products, and food processing, constitute 53 percent of total foreign investment, or 89 percent of all manufacturing foreign investment. All of them have been designated as target sectors by state planners. Foreign investments in these areas have played a significant role in Korean industrialization by providing foreign-exchange-earning exports or technologies for import substitution that have created necessary linkages for domestic industrial producers.

In service sectors of the economy, foreign direct investment has been concentrated in three principal areas. Hotels and tourism have led all others in attracting foreign investment (over $793 million, or 29.9 percent, of the total). The Korean government has viewed tourism as a relatively costless way of earning foreign exchange. In the fifth five-year plan (1982–1986), the tourism industry was targeted for development, but Korea had little experience in operating world-class hotels and tourist attractions. Principally led by Japanese firms owned by families with Korean ancestry, the tourist industry has been the sector of the Korean economy most open to foreign investment, attracting over 43 percent of foreign investment approved by the government.

During the past ten years, finance and construction have also received large shares of foreign investment. Fearful of foreign dominance of financial markets, the Korean government had severely restricted foreign investment in the financial sector until the late 1970s. As the economy grew to be more technologically advanced and diversified, however, it became apparent that financial services in Korea were antiquated. Modern technology was needed to increase the efficiency of capital accumulation and resource allocation. During the fourth five-year plan (1976–1982), the government began to feel confident in its ability to control the financial sector and no longer feared foreign investment as a major threat to national control. With the objective of gaining access to advanced financial technologies, it encouraged leading international banking cor-

[27] Ministry of Finance data (fn. 10).

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TABLE 2
FOREIGN INVESTMENT BY ECONOMIC SECTOR
(VALUE IN U.S. $1,000)

	1962–66	*1967–71*	*1972–76*	*1977–81*	*1982–85*	*Total*	*Percent*
Mining and Agriculture	102	943	6,672	7,162	8,809	23,688	0.9
Manufacturing	22,897	59,925	425,937	392,468	669,204	1,570,431	59.2
Foodstuffs	100	1,056	1,729	29,276	38,628	70,789	2.7
Textiles	759	4,048	57,505	2,562	7,675	72,549	2.7
Wood products	—	—	263	850	—	1,113	0.1
Chemicals	—	11,626	146,143	120,258	100,391	378,418	14.3
Medical products	313	2,654	2,082	9,377	62,613	77,039	2.9
Fertilizer	20,500	—	21,325	150	—	41,975	1.6
Petroleum	—	7,845	15,407	8,283	5,000	36,535	1.4
Ceramics	—	5,649	4,379	4,231	14,232	28,491	1.1
Metals	—	8,975	30,003	21,318	12,352	72,648	2.7
Machinery	20	5,287	30,330	44,139	197,757	277,533	10.5
Electronics	901	10,614	82,995	107,765	183,894	386,169	14.5
Transportation	—	40	25,542	19,485	21,499	66,566	2.5
Other	304	2,131	8,234	24,774	25,163	60,606	2.3
Social Overhead Capital	—	11,805	132,630	188,113	728,300	1,060,848	40.0
Finance	—	1,621	11,340	52,472	55,830	121,263	4.6
Construction	—	3,307	15,856	37,344	54,661	111,168	4.2
Electricity	—	—	—	3,395	—	3,395	0.1
Transportation	—	783	3,412	24,437	3,355	31,987	1.2
Hotels and tourism	—	6,094	102,022	70,465	614,454	793,035	29.9
Total	22,999	72,673	565,239	587,743	1,406,313	2,654,967	

SOURCE: Ministry of Finance documents (Seoul, December 31, 1985); based upon approval of investment applications.

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porations to invest in Korea. In addition, joint ventures with Korean banks were promoted through financial incentives. By 1985, the financial sector accounted for 4.6 percent of total foreign investment approvals.

Prior to the late 1970s, the government had also restricted foreign investment in the construction sector. Domestic construction was protected for firms such as Hyundai, Ssangyong, and Dong A. After the oil crisis, however, a unique overseas market opportunity presented itself to the Korean construction industry; in order to take advantage of it, policy toward foreign investment in the construction sector needed to be altered.

Utilizing petrodollars, several Middle Eastern countries embarked on large-scale development projects in the 1970s. Because construction was opened to international bidding, Korean firms (which had reputations as efficient producers who met completion deadlines and provided relatively inexpensive labor) frequently were in a position to underbid American, European, and Japanese concerns. The expansion of Korean construction firms to the Middle East offered an opportunity to earn several billion dollars in foreign exchange. However, several of these Middle Eastern contracts required advanced construction technologies that the Korean firms did not possess. To acquire these technologies, the government offered very attractive financial incentives to foreign construction firms that would enter into joint venture agreements and provide specific construction techniques to Korean firms doing business in the Middle East. By 1985, foreign investment in the construction sector constituted 4.2 percent of all foreign investment approvals. Over 82 percent of these investments arrived after 1977; the majority provided complex technology related to overseas construction projects.

The empirical record of the pattern of foreign direct investment is closely related to the state's industrial planning and policy. Strict control over the inflow of foreign direct investment has allowed the Korean economy to utilize desired foreign technical expertise while shaping the pattern of foreign investments in a manner that protects and nurtures the development of domestic enterprise.

V. Strategies to Utilize Foreign Direct Investment to Enhance the Expansion of Domestic Enterprise

In addition to controlling the sectoral flow and decoupling the principal components of foreign economic penetration, the Korean government has effectively pursued policies designed to limit the activity of foreign direct investment in the Korean economy and to increase the

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domestic producers' benefits. All foreign investments entering Korea must negotiate elaborate investment agreements with the government, which attempts to specify the conditions under which the foreign investor may operate. These conditions may include (1) a joint venture to be formed with a Korean partner, through which the latter will have or will obtain, in a specific period of time, financial and operational control over the enterprise; (2) an agreement as to the levels of capital investment, output, and export, the level and type of technological transfer, the provision of raw materials, and the access to foreign markets that the foreign investor will provide; and (3) an agreement on the divestiture of foreign-held equity to the domestic partner at a specified future date.

The effectiveness of these strategies varies by sector and by case; it depends on the government's perception of how necessary a particular foreign investor is to the achievement of development objectives, and on how attractive the Korean market is to the investor. If the government's conditions are too restrictive and the investment can be placed elsewhere, the investment will not be placed in Korea. If the investment involves a critical technology, Korean development objectives may therefore be jeopardized by requiring excessively stringent conditions. In such cases, the government will have to reduce the conditions placed upon the foreign investor in order to obtain a critical investment. On the other hand, if the foreign investor perceives the Korean market to be lucrative, the government will attempt to tighten the conditions in the investment agreement. Natually, if there is more than one interested foreign investor, the government's position is enhanced. In such cases, the foreign investors may be required to make competitive bids; the government may then accept the bid that maximizes its position.

Central to the issue of benefits to the domestic economy is the share of surplus extracted from the domestic economy. Profit remittance, transfer pricing, royalty payments, and the division of local and export markets are issues directly related to how surplus is divided between a foreign investor and the domestic economy. One primary strategy for increasing benefits to the Korean economy has been the government's requirement that, whenever possible, foreign investments form joint ventures with Korean firms as a condition of entry. Even in those sectors listed in the Foreign Capital Inducement Act as open to foreign direct investment, bureaucratic control mechanisms maintain the principle that a minimum of 50 percent of equity be held by a local partner. The only foreign investments that are approved with foreign ownership levels exceeding 50 percent are those that will produce exclusively for the export market or that will transfer a technology designated as necessary for the achieve-

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ment of planned development objectives. The rationale for this policy is that joint ventures will increase transfers of technological and managerial skill to domestic firms and facilitate domestic capital accumulation to a greater degree than would fully foreign-owned investments. In a joint venture, the Korean partner could, over time, learn the technological and production processes. He would then be able to lead any expansion that may be required in the future, as well as adapt his newly acquired technical knowledge to related operations. The policy that foreigners cannot constitute a proportion of the board of directors larger than that of their share of stock ownership further permits greater Korean control over a joint venture's decision-making process than would occur within a wholly foreign-owned venture.

Although the government's policy of promoting joint ventures has affected the pattern of foreign ownership in a manner favorable to domestic producers, foreign investment has not been encouraged by it. Obviously, multinational corporations generally do not desire to form joint ventures and to give up control over their operations. In order for a foreign investor to be willing to participate in a joint venture, he needs to be assured of at least a minimum level of profitability. Incentives such as guaranteed access to the domestic market and the sole right to produce in a given sector for a specific period of time can attract some foreign investors. In Korea's case, this has been particularly true in labor-intensive sectors and in those sectors that require less sophisticated technology. To attract more sophisticated technology, however, the government has had to permit larger shares of foreign ownership or to guarantee profit levels. Foreign producers of export merchandise have also been granted permission to hold larger shares. This is reflected in the pattern of foreign ownership levels over time and by sector.

In 1968, 18.6 percent of firms with foreign financial participation were totally foreign-owned, while 24.8 percent were majority foreign-owned.[28] Most of them were small firms engaged in export production of textiles and electronic consumer goods. Those that produced exclusively for export markets were granted majority or total foreign ownership. Foreign firms that produced for the domestic market were required to form joint ventures and to hold less than majority ownership. At that time, the two largest were an oil refinery and a fertilizer production facility. Both were major targeted import substitution projects. Because the government wanted to have Korean involvement, however, it proposed a joint venture and guaranteed a minimum profit rate of 15 percent, a five-year tax

[28] Economic Planning Board data (fn. 10).

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holiday, exclusive rights to the domestic market, and exclusive rights to supply raw materials. The Korean partner was granted 50 percent ownership.

In order to encourage foreign investors, particularly Japanese, to establish production facilities in the chemical, machinery, textile, and electronic sectors, the Korean government started to ease its restrictions on the level of foreign ownership in these sectors in 1968. By 1972, 21.6 percent of all foreign-invested firms were totally foreign-owned. At that time, however, the government, conscious of Japanese ownership of production facilities in Korea, began to realize that little technological transfer to Korean producers occurred where a firm was 100 percent foreign-owned.

In 1973, the Foreign Capital Inducement Act was changed to limit majority ownership in foreign investments to firms that brought in government-specified technology for targeted import substitution or that exported over 80 percent of output.[29] By 1980, the proportion of wholly foreign-owned firms had declined to 14 percent, and only 12.2 percent were majority foreign-owned. By 1985, only 13.3 percent of all foreign investments were wholly foreign-owned.[30]

That is an extremely low figure by international standards. In a study of sixty-six countries conducted in 1977, Korea ranked lowest in the proportion of wholly foreign-owned firms—approximately 17 percent. The second-lowest was Israel with 30 percent; Japan was third with 33 percent.[31] By 1985, only 13.3 percent of all foreign-invested firms in Korea were wholly foreign-owned. Between 1981 and 1985, only 10.7 percent of the total of 401 foreign investment proposals approved by the government were for wholly foreign-owned firms; majority foreign ownership was granted to 28.1 percent.[32] Korea has thus effectively pursued a highly restrictive strategy toward foreign ownership share.

Once a foreign firm enters into a joint venture with a Korean firm, technical and managerial expertise begins to be transferred. As agreed upon in the terms of the joint venture, the foreign partner is required to train the Korean partner's personnel in managerial, technical, engineering, accounting, and other related production techniques and skills. Several foreign managers in Korea related that a joint venture with a Korean firm involves a high level of personnel rotation. Korean personnel

[29] Koo (fn. 11), 21.

[30] Ministry of Finance data (fn. 10).

[31] Joan P. Curhan, William H. Davidson, and Rajan Suri, *Tracing the Multinationals* (Cambridge: Cambridge University Press, 1977), 314, as cited in Bohn-young Koo, *The Role of Foreign Direct Investment in Korea's Recent Economic Growth* (Seoul: Korean Development Institute, 1983), 26.

[32] Ministry of Finance data (fn. 10).

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assigned to joint venture projects are often transferred to other subsidiaries of the Korean partner after they have acquired the necessary knowledge to perform their tasks. New personnel must then be trained by the foreign partner while the original employees apply their knowledge to other production processes of the Korean firm. After the Korean personnel has learned the technology necessary to operate the joint venture enterprise, expansion in that sector is carried out by the domestic partner exclusively, and that sector is closed to further foreign investment. Eventually, production thus becomes dominated by Korean producers.

Joint ventures also increase the likelihood that the profits generated by a foreign-invested firm will be reinvested in the Korean economy. If a developing country directly restricts the repatriation of profits, it will have difficulty in attracting desired foreign investment. For this reason, the Foreign Capital Inducement Act explicitly guarantees the right of foreign investors to repatriate profits. Some of the surplus that the Korean government would prefer to utilize in the form of investment capital thus goes abroad. However, since profits must be shared by the foreign investor's Korean joint venture partner, a portion is reinvested in the Korean economy; moreover, the overall level of dividends paid out may be reduced because of the government's incentives to the domestic partner to reinvest a large share of earnings in the joint venture's operation.

During interviews with foreign investors and with officials of the American and the Japanese Chambers of Commerce in Korea, a common complaint surfaced concerning the conflict over the generation of profits and the issuance of dividends between foreign and domestic joint venture partners. The state provides low-cost financing to Korean firms in targeted sectors, largely based upon a firm's level of output and/or export expansion. If a Korean firm does not increase output or export levels according to state quotas, it risks losing access to future subsidized loans and other economic privileges. For this reason, Korean firms are not as concerned with profits and dividends as they are concerned with expansion. In a joint venture, there is therefore a continual struggle over the proportion of reinvestment to dividends paid. A Westinghouse official in Seoul pointed out that, if the local partner refuses to issue a dividend, remittance of profit is difficult. This conflicting goal orientation between domestic and foreign partners has limited the dividends as well as the repatriation of foreign capital, thereby increasing the level of gross domestic investment over that which would have occurred if the project had been wholly foreign-owned.

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The petroleum-refining industry serves as a good example of how joint venture operations have led to increased Korean technological know-how and the "nationalization" of an industry. In 1962, Korean state planners designated oil refining as one of the first strategic import-substitution projects. However, no Korean firm possessed the needed technology. The Gulf Oil Corporation was approached to develop a refining operation in Korea, but it was reluctant because of the government's insistence on a joint venture relationship. In order to persuade Gulf to enter into a joint venture with the Korean Oil Company, the government offered it highly favorable terms including tax concessions, free land, total financial and operations control, monopoly rights on the supply of crude oil to the operation, and a guaranteed minimum profit level of 15 percent. Gulf's original investment amounted to $4.8 million in 1963. By 1973, Gulf had remitted over $10.5 million in profits, excluding charges for the transportation and sale of crude oil to its Korean operation.[33] The partnership served as an import-substitution project that would aid the balance of payments and guarantee the supply of a needed raw material; perhaps more important to long-range development objectives, it also offered the opportunity for Korean engineers, technicians, and managers to learn the oil-refining process.

As the Korean economy grew, the need for refined petroleum increased. Gulf offered to expand its capacity. However, the Korean government wanted to reduce its dependence on only one refining operation and on only one supplier of crude by diversifying foreign sources. By that time, economic growth had made the Korean economy more attractive to foreign investors and allowed the government to open up bidding on the second refinery. In 1965, a joint venture was formed between Caltex and the government-selected Gold Star Corporation to establish Korea's second oil refinery. Caltex, itself a joint venture of Standard Oil of California and Texaco, received generous incentives including price supports, tax concessions, and financial and operational control.

The demand for refined petroleum continued to grow along with the Korean economy. In 1968, Union Oil Corporation entered into a joint venture with Korean Explosives Corporation. In 1976, after the first oil shock, in an attempt to extend its suppliers to Middle East oil sources, the Korean government persuaded the National Iran Oil Corporation to form a fourth joint refining venture, with Ssangyong Corporation of Korea. In the first two ventures, Gulf and Caltex had been granted operational and financial control under the terms of the investment agreement

[33] Chang (fn. 16), 137.

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and were required to supply all technological know-how. In 1968, the Korean state granted operational control to Union Oil, but only 50 percent decision-making power in financial matters; it did not grant guaranteed profits to Union. By 1976, Korea had gained the necessary technical expertise to operate a refining operation. Under the terms of the National Iran Oil Corporation–Ssangyong venture, the Korean partner held total operational and 50 percent of financial control.

In the late 1970s, the government began to nationalize foreign-held equity in petroleum-refining joint ventures. When, after the fall of the Shah, the new Iranian government agreed to sell its equity to Ssangyong, the Korean government provided financing to Ssangyong to purchase the Iranian corporation's share. After the second oil shock in 1979, several oil companies found themselves in short supply of crude and in need of restructuring their worldwide portfolio. Gulf wanted to sell its Korean operation not only because of crude oil shortages, but also because of legal problems in the United States that linked the chairman of Gulf Oil to a bribery scheme with Korean President Park's Democratic-Republican Party.[34] Union Oil needed to restructure its worldwide portfolio; it wanted to sell its interest in Korea partly because of problems in repatriating dividends that resulted from Korean Explosives' actions to reinvest profits in corporate expansion.[35] Thus, both Gulf and Union were willing to sell their equity shares at relatively low prices. Because Korean partners now possessed the necessary technological skills to operate the refining facilities, foreign participation was no longer needed. The government encouraged the domestic partners to purchase the foreign interest by extending subsidized financing. By 1983, the only foreign-invested firm in the Korean oil-refining sector was Caltex—and it was required to renegotiate its original investment agreement so as to grant operational and financial control to Gold Star. A fifth oil-refining operation was established in 1986 as a joint venture between British Petroleum and Kukdong Corporation of Korea. British Petroleum holds 40 percent of equity and supplies the raw materials for the venture; Kukdong holds financial and operational control.

Today, Korea refines 100 percent of its domestic requirements, purchases its crude oil on a contractual basis or on the international spot market, hauls the bulk of it in its own ships, and holds total financial and operational control over its petroleum-refining sector.

[34] Ibid., 134–36.

[35] Information on the Korean repurchase of foreign-held equity in the oil refinery sector has principally been obtained in interviews with Caltex officials, Korean government officials, and professors at Seoul National University School of Business and Management.

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Another strategy employed by the Korean government in its attempt to control and increase the benefits the domestic economy receives is to demand that investment agreements specify the factors of production and other services that foreign investors will provide to the Korean economy. The state thus enhances its capacity to control their activity and to require them to perform and not to exceed a specific role.[36]

In targeted import-substitution sectors, the Korean government has considered technological transfers and raw material supplies to be the primary contribution of foreign investors. It has offered generous incentives to induce their entry, but explicitly states in the investment agreements the specific technological transfers and the level of raw material to be supplied. For example, Amoco was offered generous tax concessions and a guaranteed profit level for five years when it entered into a joint venture with Samsung Corporation of Korea in 1974 to manufacture P.T.A., a primary ingredient for producing polyester fiber, plastic containers, and cassette tape. In this major import-substitution project for the Korean textile, electronic, and other related industries, the terms of the investment agreement specified the level of all raw materials Amoco would supply and the method of technical transfer to Samsung.[37]

In labor-intensive sectors, where the technological gap between foreign and domestic firms was relatively small, the Korean government has allowed only export production by foreign investors. This policy was motivated by the rationale that foreign firms with greater capital resources and marketing experience might take domestic market shares away from Korean producers. The only way in which labor-intensive foreign investments would aid the domestic economy was through the foreign investors' knowledge of, and access to, foreign markets. Accordingly, the investment agreement required them to export a specific portion of their output and restricted their domestic sales. After 1973, most labor-intensive foreign investments were licensed only if they exported 100 percent of their output.[38] By 1978, 39 percent of foreign-invested firms were required to export 100 percent of their output. Over 25 percent of the firms that were permitted to sell on the domestic market had to sell at least 50 percent of their output abroad. Ceilings on output levels further minimized the domestic market share that some of these firms could control. Fewer than 40 percent of foreign investments had no con-

[36] Koo (fn. 11), 82.

[37] This information was collected in interviews with Amoco and Samsung officials in Seoul.

[38] Eul Young Park, "An Analysis of the Trade Behavior of American and Japanese Manufacturing Firms in Korea," in Moskowitz (fn. 13), 24, 31.

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dition regarding export levels, and these investments were highly concentrated in targeted import-substitution sectors.[39]

Specific terms of entrance requirements are normal for gaining access to the Korean economy. In 1986, 38 percent of agreements with foreign investors stated specific export-level requirements, 80 percent stated specific technological transfer requirements, 36 percent stated specific requirements for raw material supply, and 28 percent of the investors agreed to help their Korean partners gain access to export markets. At least one of the above requirements was specified in the investment agreements of over 92 percent of all foreign firms; at least two or more were specified in over 68 percent.[40]

In order to protect and facilitate domestic ownership and production, the Korean state did not approve a foreign investment if it would compete with a domestic producer. As a parallel to this policy, no foreign firm was allowed to take over or purchase an existing Korean firm.[41] If a domestic producer was technically capable of production in a particular area of a sector that needed to expand, the state would attempt to formulate capital from domestic or international sources and allocate it to the domestic producer. If a domestic concern wanted to sell its operation, the state required the purchaser to be a Korean national. In the course of research for this study, I could document only one case of a Korean firm purchased by a foreign investor. That was in the 1960s, when A-Dong electric, an export-oriented electronic assembly operation, was purchased by a Japanese firm. After this, the Economic Planning Board stopped all purchases of domestic firms by foreign interests. This is in sharp contrast to Raymond Vernon's estimate that one-third of all foreign subsidiaries in developing countries were formed through the purchase of domestic firms, and to discussions such as Peter Evans's account of the "denationalization" of domestic firms in Brazil.[42]

The Korean government has pursued a policy of actively encouraging the Korean repurchase of equity held by foreign firms. Of $1.3 billion in foreign direct investment between 1962 and 1983, Korean firms repurchased $263.5 million by 1983.[43] Over 20 percent of foreign direct invest-

[39] Westphal et al. (fn. 13), 53.

[40] Survey of 45 foreign investors (fn. 10).

[41] *Business Korea*, July 1985, 76.

[42] Vernon, *The Storm over the Multinationals: The Real Issues* (Cambridge: Harvard University Press, 1977), 72; Evans (fn. 2, pp. 103–25) defines denationalization as the displacement of local enterprises by foreign ones. He traces the denationalization of several industries in Brazil and highlights a Brazilian industrial ownership structure where, because of the superior capital and technological levels of multinational corporations, local enterprise tends to survive only in small-scale, non-capital-intensive enterprises.

[43] Economic Planning Board data (fn. 10).

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ments were reacquired after Korean nationals had gained technical knowledge of the production process. The government encouraged these purchases by including specific divestiture requirements in investment agreements, and by allocating subsidized loans for the purchase of foreign-held equity.

In the labor-intensive sectors, where its bargaining position is strongest vis-à-vis foreign investment, the Korean government not only requires foreign investors to enter into a joint venture with a Korean partner; they must also agree to those terms of the investment agreement that require their divestiture of equity. Under this provision, the Korean partners have the option to purchase a certain equity level (usually 15 percent, or enough to give them a majority share) after a certain period (usually ten years) or when the foreign partners have repatriated a specific percentage (usually 150 percent) of the original investment.[44] At the time of the stock repurchase, operational and financial control is of course transferred to the Korean partners.

In the late 1960s and early 1970s, several Japanese manufacturers of electronic consumer goods and of textiles established production facilities in Korea to take advantage of low labor costs. Under the terms of entry, the Korean government granted tax privileges, low utility costs, and other incentives in conjunction with financial and operational control. However, it also required joint ventures with Korean partners as well as divestiture agreements. For the Korean economy, these foreign investments increased levels of export and employment and created the opportunity to expand domestic control after local producers had gained technological and other necessary skills.

Many of the triggering mechanisms of the divestiture agreements were reached by the mid-1970s. The government usually supported the Korean partners in exercising the equity purchase options by providing low-cost financing. In many cases, the foreign companies were opposed to giving up their majority positions, but the Korean government pressured them to abide by the original agreement. Several foreign companies disposed of all of their equity rather than become minority partners. Mashushita, Toshiba, Sony, and others sold off their ventures in Korea and relocated in Singapore, the Philippines, or elsewhere. Some did not leave Korea, but reduced their equity levels. Teijin, with a 50 percent interest in the Korean firm Sunkyong (a producer of polyester fiber), was forced in 1976 to reduce its share of equity to 33.5 percent and to give up

[44] The information on the divestiture of foreign-held equity was obtained through an interview with the Seoul branch manager of a major Japanese bank who was personally involved in the negotiations to buy out several Japanese firms.

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financial and operational control. Toray Corporation had to reduce its share of a joint venture with Korean Polyester from 40 to 19.8 percent, and Mitsui's share in the same firm declined from 10 to 8.2 percent; the Korean partner thus gained majority ownership and control.[45]

By means of this strategy, Korean corporations gained ownership and control of several electronic consumer-goods and textile companies. The local market was then protected for these producers, allowing them exclusive rights at home; subsequently, they also began to compete successfully in international markets with many of the same companies that had been their joint venture partners.

The Korean government has established several means to ensure the compliance of foreign-invested enterprises with the appropriate laws and with the terms of their investment agreements. The Ministry of Finance, the Ministry of Trade and Industry, the Ministry of Science and Technology, the Ministry of Agriculture, the Ministry of Health, the Customs Bureau, and the National Tax Service all have agencies that regularly monitor various aspects of the activities of foreign investors.

The Ministry of Finance is responsible for monitoring foreign exchange matters. A predominant argument in favor of foreign direct investment in developing countries is that it provides a source for needed capital. Several studies have shown, however, that a large share of the investment capital of foreign-owned subsidiaries is actually formulated in domestic capital markets,[46] thereby defeating the theory. Because the Ministry of Finance has control over financial institutions and the allocation of investment capital, it has been able to guard against foreign investors using domestic funds for investment. Of the foreign investors who responded to the survey conducted for this study in 1986, 86 percent declared that all their investment capital had been formulated abroad. All of the remaining 14 percent had borrowed funds from foreign bank branches in Seoul, using the parent corporations to guarantee the loan. Thus, these funds did not truly originate with domestic Korean sources. The restrictions ensure that domestic savings are utilized for the development of domestic enterprises.

The Foreign Investment Control Bureau of the Ministry of Trade and

[45] Chang (fn. 16), 192.

[46] See Peter Evans, "National Autonomy and Economic Development: Critical Perspectives on Multinational Corporations in Poor Countries," in Robert O. Keohane and Joseph S. Nye, Jr., eds., *Transnational Relations and World Politics* (Cambridge: Harvard University Press, 1972), 328–30; Richard Barnet and Ronald Muller, *Global Reach* (New York: Simon & Schuster, 1974), 152–65; Economic Commission for Latin America, *External Financing in Latin America* (New York: United Nations, 1965); David T. Devlin and George R. Kruer, "The International Investment Position of the United States," *Survey of Current Business* 50, no. 1 (October 1970).

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Industry is reponsible for monitoring the operational activities of foreign-invested firms. Foreign investors must submit detailed reports on a monthly basis to the bureau on such matters as output levels, import and export activities, profit rates, domestic content, taxes paid, and personnel affairs. The bureau then uses these reports to assure that investors comply with their investment agreements.

The Bureau of Customs also monitors imports and exports; among other things, it is responsible for ensuring that only those capital goods directly related to approved production processes, and not produced in Korea, are imported by foreign firms. This policy is designed to limit the extent of transfer pricing by foreign firms and to increase the use of Korean-produced capital goods in foreign-invested production processes.

One hundred percent of respondents surveyed for this study asserted that they had been monitored by various state agencies on a regular basis to ensure their compliance with Korean law and with the terms of their investment agreements. Several foreign investors recalled instances in which the government determined that a foreign investor was not in compliance with local law or with its investment agreement. In these cases, the government would levy fines or revoke privileges offered in the investment agreement, such as tax reductions or low rates on utilities, until the investor complied with the agreement.

Conclusion

In Korea, a nationalistic state, acting in a relatively autonomous manner has shaped the pattern of foreign capital integration to facilitate the expansion of domestic firms. As a consequence, industrial development is predominantly owned and effectively controlled by Korean nationals. In a broader theoretical context, this demonstrates that the nation-state in a developing country is capable of exercising a high degree of control in establishing the pattern of its linkages with the international economy. Development strategy and governmental mechanisms can, to a large extent, shape foreign economic inflows into a sectoral and ownership pattern that facilitates both industrial development and domestic entrepreneurial expansion. The ability of the state to act in such a manner is a variable not adequately addressed or specified in neoclassical or dependent development literature.

Though the capacity and the will to do so vary greatly from one state to another, national governments can and do exercise important controls over their economic development. To a significant degree, they can determine the conditions under which access to their markets will be

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granted. The principal criterion concerning the relationship between a developing economy and the international economy should not simply be whether foreign captial is beneficial to the host country's economic development (because it provides capital, technology, managerial skills, and market expertise) or whether it is detrimental (because it increases dependency levels, utilizes inappropriate technology, expropriates national surplus, and facilitates foreign control over key economic decisions). The focus should be on the structures and strategies that can be developed by the state in order to induce necessary inputs in a manner that will maximize the benefits to the domestic economy. The state is the only institution that can advance comprehensive strategies to shape the pattern of foreign capital to fit the needs of the national economy.

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Review Article

UNDERSTANDING INTERNATIONAL TRADE POLICIES

An Emerging Synthesis

By JOHN S. ODELL*

Robert E. Baldwin, *The Political Economy of U.S. Import Policy.* Cambridge: The MIT Press, 1985, 238 pp.

Jagdish Bhagwati, *Protectionism.* Cambridge: The MIT Press, 1988, 147 pp.

I. M. Destler, *American Trade Politics: System under Stress.* Washington, DC and New York: Institute for International Economics and the Twentieth Century Fund, 1986, 366 pp.

David A. Lake, *Power, Protectionism, and Free Trade: International Sources of U.S. Commercial Strategy, 1887–1939.* Ithaca, N.Y.: Cornell University Press, 1988, 242 pp.

Helen V. Milner, *Resisting Protectionism: Global Industries and the Politics of International Trade.* Princeton: Princeton University Press, 1988, 329 pp.

Robert M. Stern, ed., *U.S. Trade Policies in a Changing World Economy.* Cambridge: The MIT Press, 1987, 437 pp.

WHY do governments act as they do in matters of international trade? During the 1980s, international trade problems multiplied and gripped public attention in many countries. Although an extensive literature already existed, scholarship on trade policies and politics expanded in proportion to the problem: following a trend that began in the 1970s, many economists and political scientists turned their traditional tools to the subject. As a result, we now have a large literature that coheres around a common question, but remains, or appears to remain, disparate in the theoretical answers it defends and the research methods it employs. Fragmentation of political-economic knowledge is not news; as we know, the two disciplines parted company during the nineteenth century. Even today, much of economics shows no signs of contact with

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political science, and vice versa. The good news is that a better, unified theory—combining elements of economics, political science, and history—is gradually emerging in the area of international trade policy and elsewhere.

In this essay, I shall single out four prominent and distinct theoretical themes woven into scholarship of the mid- to late 1980s, deliberately passing over other contributions. The four perspectives emphasize market conditions, leaders' values and beliefs, national political institutions, and global political-economic structures. Analysts working in particular traditions generally have well-known intellectual and professional reasons for presenting their ideas boldly and for claiming as much as possible for them relative to their competitors; that tendency is visible in some of the volumes under review. I shall maintain, however, that this fashionable tendency, while stimulating in the short term, is not adequate as a long-term strategy for our disciplines.

Not surprisingly, each of the four influential perspectives proves to have some theoretical value, yet none has managed to dominate the field. Nor will any one be adequate by itself as a framework within which to unify knowledge about trade policies. Most of the shortcomings and contributions of each approach will be apparent from this review. These books, however, together with other research under way, also reveal how a creative synthesis is evolving and may develop further. My main argument will be that analysts are increasingly resisting the temptation to defend bold but relatively narrow traditional ideas as sufficient, and are explicitly blending valuable insights from multiple perspectives in the same study—and that more of them should do so. After presenting evidence for this reading, I shall conclude with special attention to places where the fabric needs to be strengthened in the future.

The volumes under review share several features. The guiding orientation is more explanatory than prescriptive, though several also generate advice for dealing with current problems. They focus on explaining national policies that affect imports, though export promotion does appear occasionally. The central questions are located primarily at the national rather than the international or regime level of analysis. The studies tend to concentrate on the United States, introducing other industrial democracies only for comparative purposes or not at all.

In several respects, the books under review also illustrate the diversity of this literature. They differ as to their dependent variables and in their theoretical visions. Their methods represent quantitative and nonquantitative techniques as well as static interindustry contrasts and longitudinal designs.

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These volumes constitute only one subset of recent work on trade policy formation and politics. Other interesting segments investigate the concept and practice of strategic trade policy,[1] trade sanctions and East-West trade,[2] Japan's economic performance, policies, and power,[3] and various international trade conflicts, negotiations, and institutions.[4]

The Market Perspective

The first perspective argues generally that market conditions shape trade politics and policies. The most familiar interpretation in the United States (though not in all countries) runs as follows: free trade is best for the nation as a whole, but certain national industries are weak in the market; they organize politically to press for protection, and government provides protection for their products. Household consumers who reap the gains from liberal trade usually do not express their interests politically. E. E. Schattschneider still provides the standard description of pressure groups run amok during enactment of the infamous Smoot-Hawley tariff of 1930.[5]

Neither Schattschneider nor much of the subsequent research on pressure groups attempted, however, to provide a rigorous theory that would predict which sectoral markets would generate protection, or to identify

[1] See parts of Robert Stern's volume not reviewed here, and Paul R. Krugman, ed., *Strategic Trade Policy and the New International Economics* (Cambridge: The MIT Press, 1986). This literature is surveyed by J. David Richardson, "The Political Economy of Strategic Trade Policy," *International Organization* 44 (Winter 1990), 107–35.

[2] David Baldwin, *Economic Statecraft* (Princeton: Princeton University Press, 1986); Gary Clyde Hufbauer and Jeffrey J. Schott, assisted by Kimberly Ann Elliott, *Economic Sanctions Reconsidered: History and Current Policy* (Washington, DC: Institute for International Economics, 1985); Bruce W. Jentleson, *Pipeline Politics: The Complex Political Economy of East-West Energy Trade* (Ithaca, NY: Cornell University Press, 1986).

[3] Bela Balassa and Marcus Noland, *Japan in the World Economy* (Washington, DC: Institute for International Economics, 1988); Kent E. Calder, "Japanese Foreign Economic Policy Formation: Explaining the Reactive State," *World Politics* 40 (July 1988), 517–41; Takashi Inoguchi and Daniel I. Okimoto, eds., *The Political Economy of Japan*, vol. 2, *The Changing International Context* (Stanford, CA: Stanford University Press, 1988); Clyde V. Prestowitz, Jr., *Trading Places: How We Allowed Japan to Take the Lead* (New York: Basic Books, 1988); Richard J. Samuels, *The Business of the Japanese State: Energy Markets in Comparative and Historical Perspective* (Ithaca, NY: Cornell University Press, 1987); Karel van Wolferen, *The Enigma of Japanese Power: People and Politics in a Stateless Nation* (New York: Knopf, 1989).

[4] See Vinod K. Aggarwal, *Liberal Protectionism: The International Politics of Organized Textile Trade* (Berkeley: University of California Press, 1985); John A. C. Conybeare, *Trade Wars: The Theory and Practice of International Commercial Rivalry* (New York: Columbia University Press, 1987); Jock A. Finlayson and Mark W. Zacher, *Managing International Markets: Developing Countries and the Commodity Trade Regime* (New York: Columbia University Press, 1988); and Gilbert R. Winham, *International Trade and the Tokyo Round Negotiation* (Princeton: Princeton University Press, 1986). In addition, Benjamin J. Cohen reviews two of the present books and others in "The Political Economy of International Trade," *International Organization* 44 (Spring 1990), 261–81.

[5] Schattschneider, *Politics, Pressures, and the Tariff* (New York: Prentice-Hall, 1935).

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the general conditions most likely to lead governments to provide it, reject demands for it, or change its levels over time. During the 1970s, some scholars began to construct such a theory, grounded in neoclassical rational choice or public choice premises, and to test it systematically. Public choice analysts, typically abstracting from much detail, depict politics as a process of exchange among individuals who behave according to short-run personal self-interest—exclusively so in the purest variants. These treatments in fact postulate a market for protection itself, with rent-seeking industries on the demand side trading their votes and campaign contributions to politicians on the supply side. Governments, too, are seen as rational utility maximizers, sometimes as unitary actors and at other times as sets of self-interested individual politicians and officials responding to the "political market" and maximizing under institutional constraints. Interest groups are still prominent players, but the analysis penetrates beneath their activities to identify market conditions that will drive them. Thus when markets shift, so will the distribution of political pressures and consequently government policies as well, moving the political economy to a new equilibrium.

One recent contribution from this perspective is the essay "Endogenous Protection in the United States, 1900–1984," by Stephen P. Magee and Leslie Young (Stern, 145–95). This piece begins with a standard neoclassical Heckscher-Ohlin-Samuelson open economy and adds lobbies, political parties, and voters. The still highly parsimonious model is then presented as a partial explanation for U.S. import policy for the entire twentieth century. The authors explain:

> By endogenous protection, we mean that trade restrictions are set by maximizing, self-interested behavior by all of the economic agents, lobbies, political parties, and voters. . . . The concept of endogenous policy generates the following paradox: in a highly competitive political system, the equilibrium policies are not under the control of policymakers. In the case of protectionism, trade restrictions balance the power of narrow interests (lobbies) against that of broad interests (voters). The trade policies are equilibrating variables that clear political markets; they are analogous to prices in product markets, which balance the quantity demanded against the quantity supplied. The policymaker is like an auctioneer in a product market. . . . Empirically long-run protection should be explained by those exogenous variables that drive the behavior of groups . . . that favor and oppose protection. . . . Our empirical work indicates that approximately two-thirds of the changes in U.S. tariffs this century are explained by economic variables suggested by an endogenous tariff model (unemployment, inflation, and the U.S. terms of trade). (pp. 145–46)

The core model of Robert Baldwin's *The Political Economy of U.S. Import Policy* also emerges from this tradition; it begins with the premise that

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free trade is optimal, and then introduces imperfections in the political-economic market to account for protective policies. Baldwin, however, goes much further than Magee and Young in adding other complexities.

Industrial Market Conditions

One way in which national markets change over the long term is through structural shifts in their factor endowments. Magee and Young hypothesize that, in the United States, labor benefits disproportionately from protection; as labor's share in production declines, its relative political clout should also decline, as should the fortunes of the political party tied to it—and hence, protection as well.

During the medium or short run, the authors reason, factors will tend to stay out of politics as long as times are good; but, "when any factor's economic fortunes decline, it transfers effort out of economic activity and into lobbying and political activity" (Stern, 161). For instance, as U.S. terms of trade improve, with lower prices in the United States for Japanese cars, American blue-collar jobs and wages are undermined, and the opportunity cost of lobbying declines for labor. The United Auto Workers compensate by lobbying for higher protection, and Washington grants it. By the same token, as inflation accelerates, the pro-export lobby and even ordinary voters will exert greater demands for import liberalization.

Over time and across industries, a market analyst would expect policy preferences to vary at least with the industry's or firm's position in the world economy and with its economic health. More specifically, with rising import penetration and declining returns on capital, wages, and employments rates, industries can be expected to favor increasing protection for themselves, ceteris paribus. On the other hand, the greater an industry's dependence on exports and on foreign investments, the more it should resist demands for protection and favor import liberalization. Another staple hypothesis is that protection is a collective good for the industry seeking it, as is open trade for consumers; therefore, rational free riding will reduce a large group's political pressure below the level justified by its interests.

Empirically, the picture drawn by recent research in this tradition is less than entirely clear, as usual. Studies vary as to their basic methods, including both quantitative and small-n comparative case studies. Different works select different dependent variables to measure trade policy or industry demands as well as different data series, cases, and time periods. Econometric tests show that models are typically incomplete, and case studies naturally have difficulty establishing the generality of their findings.

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We do find evidence confirming several basic ideas, however. In the United States, tariff rates certainly did decline between 1900 and 1984 while the labor/capital ratio was falling, though a great many other things were also changing. Magee and Young report the expected positive effects on tariff rates for the lagged terms of trade and current unemployment, and the expected negative effect for current inflation. They also test the model on the number of antidumping petitions filed in recent years.

At the same time, there are good reasons to be skeptical of the assumption that the key divide falls between labor and capital. Workers and investors at Apple Computer have common trade interests that differ from those of both groups at Bethlehem Steel; classes often do not behave as units in trade politics. The Magee-Young model is also confronted with the paradoxical evidence that Republican presidential administrations were associated with greater protection than those led by Democrats, the party of labor. The authors explain that this is because Republican macroeconomic policies generated more unemployment and slower inflation, which in turn activated greater pressures for protection at the sector level and quieted anti-protection forces. Democratic macroeconomic policies tended toward the opposite conbination of inflation and unemployment, dampening pro-protection micropressures. In short, "protection is a byproduct of each administration's macropolicy" (Stern, 187).

Baldwin provides original econometric tests of several models which assume that government is simply an intermediary, responding to voters and groups attempting to maximize short-run direct self-interest. He supplements the tests with rich case studies. His book disaggregates U.S. trade policy into the independent decisions that arise in the contemporary institutional setting. He observes the votes of individual members of Congress on trade legislation, votes of commissioners of the U.S. International Trade Commission (ITC) on industry petitions for special import relief, presidents' decisions on ITC recommendations, and the varying tariff reductions offered by presidents on different products in multilateral trade negotiations in the 1960s and 1970s.

Congressional voting on the 1974 trade act is found to be "consistent with the hypothesis that Congress is responsive to the competitive problems of import-sensitive industries and labor unions" (p. 77). Higher import penetration and rising import penetration are also associated with smaller tariff cuts offered in negotiations (chapter 4), but import penetration does not appear to be a particularly strong influence on the ITC's decisions to recommend special relief from import competition, nor on

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presidential decisions in such cases (pp. 103–14, 129–33).[6] Baldwin also produces significant evidence that industries which are relatively dependent on exports and on foreign investment tend to have lower degrees of import protection and deeper tariff cuts (chapter 4).

Contrary to expectations, however, tests of the collective action hypothesis tend not to support it very strongly. To be sure, household consumers fail to contribute much to political campaigns for free trade, but when producer industries are considered as groups, relations between industry concentration ratios and protection levels or proposed cuts tend to be insignificant or even to have the wrong sign.[7] The reason could be that protection and open trade alike can be made less-public goods by narrowing the definition of the product to be fought over. Within narrower categories, small-number solutions to the collective action problem are more feasible. Moreover, economic statistics do not capture the presence of private institutions. Some trade interests are represented by industry associations formed and supported for a variety of purposes, while other trade interests are not so represented. Firms sometimes look beyond earnings in the short term to overcome problems of collective action.

Interdependence and Anti-Protection Pressure

Over the long term, U.S. companies have become more dependent on exporting and foreign investment; according to several recent studies, this is a central influence restraining contemporary U.S. trade policy. The new literature is adding more careful attention to the other side of the domestic political struggle, and is looking beyond household consumers. One of these books, Helen Milner's *Resisting Protectionism*, begins with a historical puzzle: why the 1920s ended with Smoot-Hawley and trade war, but the 1970s did not—despite several similarities between the periods. She uses a longitudinal comparison to raise doubts about the importance of the much-debated hegemony hypothesis, noting that the relative international economic position of the United States was quite similar at the ends of the two periods. Passing over other political factors, Milner emphasizes long-term changes in market conditions

[6] The sample for the latter tests is already limited to cases with relatively high import competition; this truncation might account for departures from common sense.

[7] See also Réal P. Lavergne, *The Political Economy of U.S. Tariffs: An Empirical Analysis* (Toronto: Academic Press, 1983), Table 7.2; William R. Cline, *Exports of Manufactures from Developing Countries* (Washington, DC: The Brookings Institution, 1984), Table 2-6, on nontariff barriers; and Thomas A. Pugel and Ingo Walter, "U.S. Corporate Interests and the Political Economy of Trade Policy," *Review of Economics and Statistics* 67 (August 1985), 471, on company activity toward trade legislation.

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(other than the labor/capital ratio) and rational self-interested calculation by U.S. companies.

Milner's research posits industry's political demands, not policy itself, as the dependent variable, and thus addresses directly only part of the general question that organizes this literature. On the other hand, unlike many studies coming from this first perspective, the research on sectoral demands is more direct, using industry's congressional testimony and other evidence of political behavior rather than relying on common but less adequate economic proxies. Milner selects the six U.S. industries that faced the greatest increases in import penetration in the 1920s and another six from the 1970s, and conducts a detailed study of each.

She concludes that the firms that were least dependent on both exports and multinational operations (type I industries) tended to respond to import competition by calling for protection in both periods. Those that exported more but did not have multinational operations (type II) were found to have more divided policy preferences. Industries more internationalized in both senses (type III) tended to prefer free trade in both periods, despite strong import penetration at home (chapter 6). Furthermore, her research indicates that increasing interdependence over the decades increases the likelihood that firms in the same industry will diverge in the degree of their international orientation, dividing more sectors politically when they confront an import challenge. All in all, the demand for protection was more muted in the 1970s than in the 1920s. Moreover, if Milner's result holds for industries facing heavy import competition, a liberal policy stand seems even more likely for internationalized sectors not facing such pressure. Although the book is based on case studies, they are "least likely" cases for her hypothesis. Methodologically, this volume provides a model for selecting a small number of cases for maximum analytical gain.

Overt opposition to campaigns for product-specific protection in the U.S. expanded several-fold after the period examined by Milner. The producers of sugar, textiles, and automobiles increasingly found themselves counter-lobbied by other special interests that depended on imported components, by retailers who had staked their competitive strategies on access to foreign goods, by exporters, and in some cases by multinational companies. One study concludes that although the opposition did not clearly win all fights, it did make a difference in the 1980s, helping pro-trade politicians and officials to restrain the degree of new protection or, in some cases, to deny the requests altogether. This countermobilization was much less in evidence, however, during consider-

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ation of general (not product-specific) legislation that could make administrative criteria more restrictive.[8]

Macromarket Conditions

Not surprisingly, the 1980s also caused American analysts to think more about macroeconomic influences on trade policy. The dramatic expansion of U.S. fiscal and external deficits and the rocketing of real interest rates and the dollar into the stratosphere made these influences difficult to ignore. One of the oldest macroeconomic notions had held that bad times favor protection, and vice versa. New research has provided better confirmation of this business cycle hypothesis.[9]

In "Macroeconomics and Protection," Rudiger Dornbusch and Jeffrey A. Frankel (Stern, 77–130) suggest several additional connections. Their basic logic links changes in the macroeconomy to changes in exchange rates and trade flows, which in turn affect output and employment aggregates at home; these lead, finally, to shifts in political pressures for import barriers. Dornbusch and Frankel remind us that it is the country's *relative* macroeconomic position that counts for the trade balance. They document the well-known paradox that when a country recovers faster than its trading partners, it sucks in new imports faster than it boosts exports, thereby worsening its trade balance (Stern, 85). A declining aggregate trade balance may be favorable for an increase in the average level of protection, insofar as it draws politicians' attention to trade rather than to other issues, and undermines their confidence in a liberal policy.

Dornbusch and Frankel's favorite argument is the exchange-rate hypothesis. The dollar's rise made exports less competitive and imports more so. The import flood touched off more pro-protection pressure, the argument goes, and may also have undermined political pressure against protection by U.S. export groups such as farmers. The authors conclude from empirical data that the rising dollar of the early 1980s was a major cause of the plummeting American trade balance, and that a failing currency will improve it (Stern, 89). This point became controversial in po-

[8] See I. M. Destler and John S. Odell, *Anti-Protection: Changing Forces in U.S. Trade Politics* (Washington, DC: Institute for International Economics, 1987), as well as Bhagwati, *Protectionism*. Little work has been done to investigate such political opposition in other countries.

[9] See Wendy E. Takacs, "Pressures for Protectionism: An Empirical Analysis," *Economic Inquiry* 19 (October 1981), 687–93; Guilio M. Gallarotti, "Toward a Business Cycle Model of Tariffs," *International Organization* 39 (Winter 1985), 155–87; and James Cassing, Timothy McKeown, and Jack Ochs, "The Political Economy of the Tariff Cycle," *American Political Science Review* 80 (September 1986), 843–62.

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litical debates of the later 1980s, when the dollar did fall sharply, but the trade deficit did not decline as rapidly or by as much as many had hoped it would. Dornbusch and Frankel also find that high real interest rates reduced employment in the U.S. automobile and textile/apparel industries, both of which gained additional protective measures during the decade.

This first, market-based perspective contributes essential insights; no one would deny that market conditions are relevant for a government's economic policies. More particularly, the public choice tradition has improved the rigor and generality of our knowledge of which sectoral or macromarket conditions are most strongly related to which U.S. policy variables (though empirical results are not fully consistent). By adopting some simplifying assumptions, the analyst is able to employ deductive models to explain phenomena that fit within those limits, producing a more satisfying certainty and precision than is found in studies that view the issue from most other perspectives.[10] We also now have greater evidence that pro-trade interests express themselves through politics.

This theory is inadequate and even misleading if taken narrowly or alone, however. It is one thing to focus attention on economic markets; it is another to suppose that politics itself is a market, and especially that government is nothing more than an auctioneer responding to society. Many political specialists would dismiss this extreme vision out of hand. In any case, treating politics as analogous to a market of individuals obscures the society's institutionalized structures of authority and their effects. By assuming individuals as primary and their preferences as given—an essential component that yields advantages—the perspective also acquires a blind side, namely, the extent to which authority structures shape the very definition of individual interests or preferences and the formation of groups, as well as the behavior of both in particular situations.

Devotion to a narrow version of public choice analysis by some may be a product of excessive concentration on the more pluralist circumstances of North America and similar regions. In principle, a utility function can hold anything we wish to insert; the notion could be stretched to model a dictator who cares about unemployment, for example. But it has not been shown that we gain by conceiving of trade policies in authoritarian or totalitarian systems as products of choices by publics-cum-auctioneers, relative to a top-down view starting with elites pure and

[10] For a general review and case for the affirmative, see Bruno S. Frey. "The Public Choice View of International Political Economy," *International Organization* 38 (Winter 1984), 199–223.

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simple. Even in the United States, presidents, the Department of Agriculture, and congressional committees are not well understood as auctioneers or traders; they have authority over their "exchange partners." They make decisions that can put a company out of business, and sometimes do so, but no industry, even a large one like steel, can destroy a president or a political party. To base conclusions on the premise that their relationship is a free, uncoerced exchange would be misleading, even in the United States.

Moreover, a narrow public-choice interpretation simply omits too much that other research shows to be important. The perspective misses variables internal to the domestic political process that do affect the level of protection. Most of these works also abstract from international relations altogether. While reading many studies coming from a market perspective, we forget the power imbalances, trade wars, cartel arrangements, international organizations, and liberalizing negotiations that have dotted commercial history. These omissions are usually accepted as part of a theoretical strategy favoring parsimony and allowing for complexities only one step at a time. This trade-off between parsimony and validity is familiar, but there may be better ways to finesse it.

The Cognitive Perspective

A second theoretical theme woven into recent thinking about trade policy begins with the premise that political behavior is partly a function of leaders' and publics' values, policy beliefs, and ideologies, and that differences and changes in these ideas will shift policies accordingly. This general argument, springing from roots in Weber and elsewhere, assumes that policy ideas, while affected by material interests, are not simply reducible to them; values and beliefs have more complex origins and can have independent effects on policy content.[11] This second perspective aspires not simply to describe policy more accurately, but to help explain it and its changes.

[11] In one famous passage Weber put his own formulation as follows: "Not ideas, but material and ideal interests directly govern man's conduct. Yet very frequently the 'world images' that have been created by 'ideas' have, like switchmen, determined the tracks along which action has been pushed by the dynamic of interests." *Gesammelte Aufsaetze zur Religionssoziologie*, vol. 1, p. 252, quoted in *From Max Weber: Essays in Sociology*, trans., ed., and with an introduction by H. H. Gerth and C. Wright Mills (New York: Oxford University Press, 1946), 63–64. Albert O. Hirschman contends that the traditional economic approach, which disregarding values such as public morality, presents too simple an account of even such fundamental processes as production and consumption. "Against Parsimony: Three Easy Ways of Complicating Some Categories of Economic Discourse," *Economics and Philosophy* 1 (April 1895), 7–21.

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The cognitive perspective has penetrated less into trade studies, so far, than into macroeconomic and other areas, but interest is spreading.[12] Charles Kindleberger, contemplating the remarkable spread of free-trade policies in mid-nineteenth-century Europe, concludes that the most satisfactory explanation is that "Europe as a whole was motivated by ideological considerations rather than economic interests. . . . Manchester and the English political economists persuaded Britain, which persuaded Europe—by precept and example."[13] A classic work on U.S. trade politics in the 1950s, *American Business and Public Policy*,[14] concluded that a businessman's stand on protection could not be explained simply by "what he makes"; policy preferences were also affected by the person's general orientation between isolationism and internationalism, as well as by such factors as whether the executive had traveled overseas and whether another industry or politician had attempted to influence his thinking.

Increasingly during the 1980s, rational choice thinkers conceded the need for direct investigation of beliefs and preferences that cannot be reduced simply to material interests. Participants in one project, for example, reported that "the contributors to *Cooperation under Anarchy* did not specifically set out to explore the role of perception in decision making, but the importance of perception has kept asserting itself."[15]

"One broad conclusion" Robert Baldwin reaches "is that the models focusing exclusively on short-run, direct self-interest are insufficient for

[12] See Judith Goldstein, "The Impact of Ideas on Trade Policy: The Origins of U.S. Agricultural and Manufacturing Policies," *International Organization* 43 (Winter 1989), 31–72. For comprehensive reviews, see John S. Odell, *U.S. International Monetary Policy* (Princeton: Princeton University Press, 1982), 58–78 and passim, and Peter A. Hall, ed., *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton: Princeton University Press, 1989). For recent related applications, see Emanuel Adler, "Ideological 'Guerrillas' and the Quest for Technological Autonomy: Brazil's Domestic Computer Industry," *International Organization* 40 (Summer 1986), 673–706; Paul Egon Rohrlich, "Economic Culture and Foreign Policy: The Cognitive Analysis of Economic Policy Making," *International Organization* 41 (Winter 1987), 61–92; John S. Odell, "From London to Bretton Woods: Sources of Change in Bargaining Strategies and Outcomes," *Journal of Public Policy* 8 (July–December 1988), 287–316, and other articles in the same issue; Ethan B. Kapstein, "Resolving the Regulator's Dilemma: International Coordination of Banking Regulations," *International Organization* 43 (Spring 1989), 323–47; and Peter M. Haas, "Do Regimes Matter? Epistemic Communities and Mediterranean Pollution Control," *International Organization* 43 (Summer 1989), 377–404.

[13] Kindleberger, *Economic Response: Comparative Studies in Trade, Finance and Growth* (Cambridge: Harvard University Press, 1978), 65. See also Joseph A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), 397–98, and Peter Gourevitch, *Politics in Hard Times* (Ithaca, NY: Cornell University Press, 1986).

[14] Raymond Bauer, Ithiel de Sola Pool, and Anthony Dexter, *American Business and Public Policy: The Politics of Foreign Trade* (New York: Aldine 1972).

[15] Robert Axelrod and Robert O. Keohane, "Achieving Cooperation under Anarchy: Strategies and Institutions," in Kenneth A. Oye, ed., *Cooperation under Anarchy* (Princeton: Princeton University Press, 1986), 226–54, at 247, first pub. in *World Politics* 38 (October 1985).

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explaining the wide range of behavior patterns observable in the trade policy arena. Models that include behavior based on either long-run self-interest or concern for the welfare of other groups and the state are also necessary to account for the actions of voters and public officials" (p. 174). His broader public choice study insists that "elected officials may not simply be intermediaries whose behavior reflects the wishes of the electorate or some part of it. Instead they may pursue their own public policy goals on many occasions and still retain their elected positions (p. 13)." Some of the industries receiving the greatest protection tend to have a high proportion of low-skilled, low-income workers, a group not known for its well-oiled lobbying operations. Presidents offer smaller tariff cuts for industries with poorer and less skilled workers and slow employment growth. The ITC is more likely to recommend import relief for industries that have suffered declines in profits and employment.[16]

Jagdish Bhagwati picks up this theme in a different way in *Protectionism*, the published version of his 1987 Ohlin lectures. "Interests and ideology interact to shape these underlying [trade policy] trends. My major theme will be that contrapuntal tendencies can be distinguished in interests and in ideology, and that the deck is not stacked in favor of protectionism" (p. xii). The Depression experience converted many countries to a "pro-trade bias" in the postwar period, which facilitated liberalization under the General Agreement on Tariffs and Trade (GATT). A free–trader himself, Bhagwati also cites turn-of-the-century arguments against English "reciprocitarians." To these, he adds post–World War II theoretical amendments calling into question even the infant-industry case for protection (pp. 26–33). Bhagwati also takes encouragement from the resurgence of neoclassical ideas in developing countries in the 1980s. He heaps sarcasm on the contemporary "manufacturing matters" justification for protection (110–14), and he looks toward the future with qualified optimism, based partly on confidence in the power of this ideology in the world, and partly on growing global interdependence of interests. Presumably the spectacular developments in Eastern Europe as the decade's curtain came down cheered these liberal hopes further. Bhagwati's recent lectures clearly illustrate the movement toward blending insights from traditionally alternative perspectives.

It is one thing to argue that interests are not all that matters; it would

[16] Stephen V. Marks and John McArthur extend this analysis specifically to congressional voting on protection for the automobile industry; they find that ideology also influences this behavior independently of constituency interest, at least when the member faces a low opportunity cost of voting his or her beliefs. "Empirical Analyses of the Determinants of Protection: A Survey and Some New Results," in John S. Odell and Thomas D. Willett, eds., *International Trade Policies: Gains from Exchange between Economics and Political Science* (Ann Arbor: University of Michigan Press, 1990).

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be quite another to maintain that perceptions are. Occasionally (not in Bhagwati's book), one does find such claims—namely, that individuals' and society's interests are always seen through particular cultural lenses and are socially constructed; sometimes this borders on suggesting that interests have no objective basis at all. Such an exclusive variant of a cognitive perspective, which assumes that interests are wholly malleable, could be sustained only by ignoring or rejecting much research that documents regular patterns of behavior that correspond to interests objectively defined, as has been discussed above. A depiction leaving structures of interest and institutions invisible would exaggerate the room for maneuver actually available to policy makers. This second approach, too, would be inadequate and misleading if taken alone.

Even when they are considered to be supplementary, such arguments often suffer from a lack of generality and precision—a price the author is often willing to pay in return for richer insight. Some applications, however, assert the efficacy of ideas and ideologies without attempting to refute alternative interpretations. Many recent studies do identify beliefs and values that made a difference to policy in a single case or two, and some do refute or credit alternatives but do not formulate general propositions that would help to explain why some ideas become more influential than others, or which ideas are related predictably to which aspects of policy. The sampling and measurement of beliefs and ideologies often leaves much to be desired (including in some of my own work), and the importance of ideas relative to other influences is often not specified precisely.

The Institutional Perspective

A third thread woven through this scholarship highlights the constraints that national political institutions impose on individuals and groups, and the effects of institutional change on the broad patterns of trade policy. This perspective also boasts a long lineage, and has in fact experienced a revival in recent years. Precisely in reaction against interest-group liberalism and interdependence thinking, some theorists have been attempting to bring the state back in.[17] In its strongest variant, this

[17] Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol, eds., *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985). More relevant for trade policy are Peter Katzenstein, ed., *Between Power and Plenty* (Madison: University of Wisconsin Press, 1978); Robert A. Pastor, *Congress and the Politics of U.S. Foreign Economic Policy* (Berkeley: University of California Press, 1980); G. John Ikenberry, David A. Lake, and Michael Mastanduno, eds., *The State and American Foreign Economic Policy* (Ithaca, NY: Cornell University Press, 1988); and David Mares, "Domestic Institutions and Shifts in Trade and Development Policy: Colombia 1951–1968," in Odell and Willett (fn. 16), 193–224.

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perspective begins by assuming that institutions rather than individuals come first. Institutions establish and defend the particular order and initial distribution of property rights under which market exchange takes place. Individuals' very conceptions of their places and potentials in this social order are learned partly from within their particular historical and institutional environment, so that economic liberalization can have fundamentally different effects in different settings. At a minimum, the political behavior of individuals and industries responds to the constraints and opportunities presented by these institutions. Over the long run, national political institutions may crumble or shift in response to market conditions, new ideas, or international structural change—but the long run may take quite some time.

Peter A. Hall constructs a relatively strong version of this argument, primarily for explaining the contrasting paths of macroeconomic and industrial rather than trade policies in Britain and France.[18] Hall also contributes to the synthesis by featuring effects of policy ideas and using some public-choice insights. Most of the books under review also mention dimensions of U.S. political institutions other than parties. Baldwin, for example, emphasizes the differences between trade policy formation within the Congress, in the International Trade Commission, and in the White House, as well as the processes of mutual influence among these bodies.

Baldwin and particularly I. M. Destler in *American Trade Politics: System under Stress* spotlight a change in tariff-setting institutions during the 1930s crisis as pivotal for the subsequent liberalizing trajectory and creation of the GATT. The long-term institutional argument, which is supplementary to Magee's factor endowments, Milner's industry globalization, and international hegemony, centers on Congress's voluntary delegation of authority to the president in the 1934 Reciprocal Trade Agreements Act. Until then, Congress had voted on the specific tariff for each industry; subsequently, the president had the authority to reduce tariffs if he could negotiate reciprocal cuts abroad.[19] This shift created what Destler insightfully calls "protection for Congress"—greater protection, that is, from pressure to do harmful things that Congress knew it could not resist doing if pressed. Of course, politicians had no intention of silencing themselves, but they preferred to be free to make great noises

[18] Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (New York: Oxford University Press, 1986).

[19] Also see Stephan Haggard, "The Institutional Foundations of Hegemony: Explaining the Reciprocal Trade Agreements Act of 1934," *International Organization* 42 (Winter 1988), 91–120, which links this innovation to requirements of international trade negotiations, and thus to the fourth analytical perspective.

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on behalf of their constituents while knowing that the president would make the most consequential decisions and provide them with political cover. They also delegated authority only for a few years at a time, thereby creating periodic opportunities to hold the president to account for reciprocity. Thus, even if market conditions and group rent-seeking had continued unchanged after 1934, special interests faced a more formidable barrier to political success than before. Meanwhile, strong congressional committees were able to kill protective bills introduced by a particular industry before they got to the floor of the full House or Senate. During the Kennedy administration, the creation of a new agency, the Special Trade Representative (now the U.S. Trade Representative), added another institutional counterweight for managing organized pressures.

During the 1970s and 1980s, however, this system came under greater stress and eroded seriously, as Destler shows quite effectively. The opening of the economy—the system's achievement—itself permitted greater local stress in the form of import penetration, which generated intensified demands from well-known industries. At the same time, the institutional democratization of Congress made management more difficult. Strong committees became weaker, less able to keep protective bills off the floor where members would have to take a public stand. The Reagan White House was also less attentive than it might have been to providing political leadership to manage the trade-politics vacuum.

To strengthen this system, a less sanguine Destler proposes improved macroeconomic policy, better microeconomic adjustment, and organizational restructuring. In particular, he would enhance the influence of the U.S. Trade Representative in the White House by slimming that office down in size and abolishing its rival, the Department of Commerce.

In a related line of thinking, Judith Goldstein maintains that particular American policy ideas became institutionalized in law and bureaucracy at different stages during the twentieth century, including the 1930s, and thereby continue to exert influence long after other ideas have become more popular.[20] She concentrates on the roles of the president and the International Trade Commission in enforcing these laws. Goldstein, Destler, and others thus fuse the second and third perspectives.

This institutional approach implies that trade policy formation under different organizational and legal arrangements will yield corresponding differences in policy content. The books under review do not provide

[20] Goldstein, "Ideas, Institutions, and American Trade Policy," *International Organization* 42 (Winter 1988), 179–218.

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much cross-national evidence with which to explore this issue, though of course much has been written about Japan in particular (see fn. 3). France, too, is often contrasted sharply with the United States, but according to Milner, the institutional difference there is less than we have been told. She conducts additional case studies of French industries facing import competition in the 1970s, and she finds that her U.S. results are mostly confirmed by the trip across the Atlantic. In France, as in the United States, "firms' growing ties to the world economy have altered their trade preferences, shifting them away from protectionism even in times of economic distress. . . . Intra-industry disputes have weakened pressures for protection." Milner found the French state "in constant negotiation with its industries. . . . Its policy makers did not appear so isolated or independent, and its policy was less coherent and long-term oriented" than other accounts had suggested. "Rising international economic interdependence has been experienced similarly in the United States and France" (pp. 288–89).

Be that as it may, rational-choice analysts are increasingly acknowledging the importance of institutional differences, as Baldwin does by incorporating their features as supplements to a basic public choice model. However much insight the institutionalist perspective may contribute, though, its advocates rarely offer it as sufficient by itself in the trade area. As G. John Ikenberry acknowledges, "in terms of explaining foreign economic policy, the institutional approach can provide only some of the answers. The approach focuses on the structural constraints that confront social and governmental actors in the process of policymaking. Yet while constraints tell us what is not possible, they provide less guidance concerning what is."[21] Destler's account, too, blends in relevant insights of micro- and macroeconomics and makes cognitive arguments as well.[22]

Studies emphasizing this perspective, much like cognitive analyses, typically pay for these broader insights by deliberately sacrificing some precision and generality. Many proceed by induction and avoid quantitative measures and precise general propositions. Baldwin, however, shows ways of making institutional arguments more precise and testable.[23]

[21] Ikenberry, "Conclusion: An Institutional Approach to American Foreign Economic Policy," *International Organization* 42 (Winter 1988), 242.

[22] For other recent examples of synthesis, see David Mares (fn. 17), and Joanne Gowa, "Public Goods and Political Institutions: Trade and Monetary Processes in the United States," *International Organization* 42 (Winter 1988), 15–32.

[23] Other recent research on American government is also developing institutionally richer models. See, e.g., Kenneth A. Shepsle and Barry R. Weingast, "The Institutional Foundations of Committee Power," *American Political Science Review* 81 (March 1987), 85–104, and

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The Perspective of International Structure

A fourth perspective turns trade policy outside in, viewing it as a product of the international structure of which the state is a unit, or as a response to specific interactions between states. David Lake's ambitious study, *Power, Protection, and Free Trade*, defends one such argument: "The central proposition of this book is that the international economic structure and the position of nation-states within it create constraints and opportunities that shape the trade strategies of countries in important and predictable ways" (pp. 29–30). Lake has learned from the debate on economic hegemony, but he considers it too confining because it fails to differentiate among nonhegemonic structures. His interesting refinement proposes a two-dimensional notion of international structure, situating every state relative to others according to economic size and labor productivity.[24] From these properties, Lake attempts to deduce the national trade interests of states in each sector of the grid.

A self-proclaimed follower of Alexander Hamilton, Friedrich List, and Joan Robinson, Lake represents a tradition long in dispute with the liberal one, and his book fires off a challenge that matches in boldness the opposite demarche of Magee and Young. Agreeing that states often violate Adam Smith's principles, he maintains that this is not because of irrationalities due to domestic politics, but precisely because states are rational. Lake's stance rests on several alternative premises: the international system is anarchic; nation-states—rather than individuals or global society—are the most important actors and the appropriate unit of analysis; a state will be concerned about its position relative to other states, as well as about its absolute economic progress; both power and wealth are proper goals; and protection and free trade are both legitimate and effective policy instruments for achieving national interests (p. 2). This realist or statist interpretation concentrates heavily on a single causal factor. Though Lake concedes some importance to internal politics, he deliberately pushes it from the center to the periphery of the analysis. He also raises doubts, from the empirical record, about export dependence, interest group struggle, and political party alternation as

David P. Baron and John A. Ferejohn, "Bargaining in Legislatures," *American Political Science Review* 83 (December 1989), 1,181–1,206.

[24] For other recent reconsiderations of the hegemony debate, see Bruce Russett, "The Mysterious Case of Vanishing Hegemony," *International Organization* 39 (Spring 1985), 207–32; Duncan Snidal, "The Limits of Hegemonic Stability Theory," *International Organization* 39 (Autumn 1985), 579–614; and Joanne Gowa, "Rational Hegemons, Excludable Goods, and Small Groups: An Epitaph for Hegemonic Stability Theory?" *World Politics* 41 (April 1989), 307–24.

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explanations of the broad changes in U.S. trade strategy over the decades, while conceding their importance for more specific policy variations.

Lake relies on three hypotheses from international economics to develop a case for protection under certain conditions: optimal tariff theory, the "new mercantilism" focus on leakage of national income through spending on imports, and the benefits of specializing in industries with dynamic increasing returns to scale. Two central conditions, he maintains, can make protection attractive. First, a nation's relative economic size (its share of world trade) affects its ability to benefit from a non-zero optimal tariff and to manipulate the open-economy multiplier. Second, nations with low relative labor productivity are said to have a particular interest in infant-industry or "increasing-returns" protection, unless their domestic markets are small.

These two related dimensions then become axes for defining simple models of different international economic structures. A hegemonic structure, like that prevailing at the turn of the century and in 1950, is characterized by a single large and relatively productive national economy. Lake maintains that around 1912 Britain slipped below a theoretical line between large and medium-sized, and so changed the world structure from a hegemonic one to what he dubs "bilateral opportunism," meaning one with two, and only two, medium-sized, relatively efficient countries. This structure held until the early 1930s, when the British economy also slipped across the average productivity line, leaving the United States alone as both medium-sized and still relatively efficient, and creating a second nonhegemonic structure he calls "unilateral opportunism."

From these systemic classifications the author deduces the changing strategies the United States should have chosen in each period. He uses simple two-by-two game-theoretic models to do so, and in this respect the book provides a sounder game theory application than is common in political science. The theoretical logic furnishes a basis for preference orders prior to the play of a game, thus avoiding the all-too-frequent circularity problem. Most of the rest of the volume then presents an extended empirical defense of this theory, attempting to show that even an unlikely case—the self-sufficient, pluralist, isolationist United States—shifted its external trade strategy rationally in response to changes in the international system between 1887 and 1939.

Lake gives us a better grasp of the sweep of change in broad trade strategy over the decades than is available in much of the literature. He finds theory and evidence related in reasonable, at times even uncanny,

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correspondence to each other through much of the period. Until 1912, American global incentives indicated free riding, and industrial tariffs were high. In 1913, an increasingly competitive United States reduced its tariffs dramatically. The subsequent situation is seen as a Prisoner's Dilemma, in which the two dominant players can reach either cooperation or conflict, depending on the degree of international price and exchange-rate stability—an exogenous market variable. Following the war, greater instability caused both countries to increase protection. (Lake assumes greater government protection is the only logical response to instability; he does not consider the rival premise that a declared policy of nonintervention and encouragement of private stabilization would be the most cost-effective route to stability.)

This quest to prove all American actions rational faces a difficult challenge with Smoot-Hawley, regarded almost universally as an unambiguous disaster for broader U.S. interests. Lake shores up the theory with a clever amendment, which holds that if players were to foresee a cooperative game coming to an end, preemptive defection would pay. If everyone will soon be beggaring like mad, the one that moves first will gain briefly, until the others have retaliated. Britain slipped across the average productivity line at the end of the 1920s, and Lake maintains that America must have seen this as the end of one structure and the coming of another with fewer constraints. The British were already moving toward protection during the twenties, and Lake contends that this undermined the U.S. interest in avoiding retaliation; new barriers were coming anyhow. Inconvenient for this interpretation, of course, is the fact that the decisive British turn to imperial preference did not occur until two years after Smoot-Hawley. Lake does concede that U.S. domestic politics got out of hand, despite some remaining systemic incentives for restraint.

Unlike most political scientists, Lake ventures explicit predictions for the future. He rejects the 1930s analogy for today, because we find ourselves in a different nonhegemonic structure.

> If the theory developed above is correct, the international economy will remain relatively open and liberal despite the decline of American hegemony. The international economy will resemble that which existed between 1912 and 1930, but we are unlikely to see a repetition of the economic conflicts of the 1930s. (p. 229)

He feels relatively optimistic because the present system has not one but several productive economies of middle size, all of which have interests in open trade as well as some influence. At the same time he concedes

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that the larger number raises the problem of free riding, and that enforcement by retaliation is risky. Unfortunately, Lake stops before he has elaborated a convincing contemporary constraint on the buck-passing problem that has often been blamed for the 1930s trade war. We might find such constraints, however, by introducing the greatly thickened web of interdependence at the industry level, expressed via domestic politics, and causal beliefs based on the depression experience, emphasized in the first and second perspectives.

Lake's stimulating book casts a new light on the events of those years and should be debated seriously. Like some of the narrower liberal treatments, however, this relatively narrow antiliberal theory is vulnerable to several objections, as the author is aware. First, many readers will have doubts about the assumption that the benefits of protection to the U.S. economy exceeded its costs, and they will search in vain for data to substantiate it. In fairness, though, it must be added that Lake's method is analogous to a common position taken by liberal theorists: question not the accuracy of my assumptions; look instead at how productive their implications are.

Second, heavy interpretive weight is placed on particular operationalizations that are debatable. As Milner points out, for instance, an equally good case can be made that U.S. power was already hegemonic by 1930. The American share of world trade had almost reached the level it was to attain in 1950, and other data—such as shares of world production—point in the same direction. In any case, it is difficult to agree that the future of world trade hinges on whether the U.S. share is 14 percent or 17 percent. Third, the theory itself faces empirical anomalies and is not broad enough to carry the entire explanatory burden, as Lake acknowledges (p. 224).

Generally, systemic structural theory has shown that it has much to contribute to the understanding of international economic relations. This version in particular may also fit even better in those many cases that are not as unlikely as that of the United States. It would stand to reason that smaller, more open political economies will shift their strategies to a greater extent in response to external incentives. Considerable careful research does confirm that strong and weak powers behave differently in trade relations, and that weaker ones tend to make concessions under external pressure, though even they have room to maneuver in response to their varying doctrines and domestic political conditions.[25]

[25] See Tony Smith, "Changing Configurations of Power in North-South Relations since 1945," *International Organization* 31 (Winter 1977), 1–28; Stephen D. Krasner, "The Tokyo Round: Particularistic Interests and Prospects for Stability in the Global Trading Regime,"

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Strengthening the Synthesis

To sum up, recent scholarship on U.S. international trade policy is a tapestry constructed of several distinct analytical traditions and has not attained theoretical unity. From the evidence, each of four analytical perspectives—emphasizing market conditions, policy beliefs, political institutions, and global structures—has made valuable contributions. Yet each by itself also proves inadequate as a sole unifying vehicle, so that there is clearly much to be gained by moving further toward a more comprehensive and integrated view of the issue.

Such a synthesis is in fact developing. Though scholars will always disagree on some dimensions, note that not all the books under review fall neatly into two traditional boxes, those by economists versus those by political scientists. While each author does call one of those disciplines home, most have also begun to study scholarship produced by the other, and have deployed insights gained from the exchange, albeit selectively. For example, economists Baldwin and Bhagwati cite and contribute to political science literature; political scientist Milner defends a conclusion having as much or more in common with the market approach as with power and institutional arguments. Increasingly, analysts are characterizing their studies explicitly as contributions to a joint political/economic science, and expect to be judged by more than one conventional discipline. Most of the recent books under review, in addition to other studies mentioned in passing, blend insights from several perspectives. To put the point another way, the classification of thought in political economy as either liberal, mercantilist, or Marxist is becoming less and less useful. The literature under review, at any rate, is refusing to stay within those categories.

What are the key features of this emerging integrated theory of trade policy formation? It clearly encompasses individuals, groups, and states as actors—rejecting the argument of parsimony for excluding any of them. Discerning the effects of each on the others is therefore central to the complex analytical challenge. How they combine is becoming apparent in particular episodes and arenas, but is still not clear in general. The consensus theory assumes that decisions are made rationally, in the sense of process rather than substance. Preferences, however, are not taken as given; the theory recognizes that preferences are partly shaped according to ideologies, theories, and political institutions and processes that vary

International Studies Quarterly (December 1979), 491–531; Peter J. Katzenstein, *Small States in World Markets* (Ithaca, NY: Cornell University Press, 1985); and John S. Odell, "The Outcomes of International Trade Conflicts," *International Studies Quarterly* 29 (September 1985), 263–86.

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across countries and change through time. This essay also highlights several more specific propositions on which consensus is developing.

The emerging theory naturally excludes some orientations. At the level of epistemology, this community is neopositivist without apology; no poststructuralist or postmodernist dissent is evident here.[26] Marxist thinking is also absent.

At the level of broad methodology, we are seeing a welcome, gradual movement away from efforts to defend single inadequate theories and vanquish all others, and toward joint learning and integration. To be sure, there will always be an honored place for partial analysis, if developed as a means to a larger end. Furthermore, efforts to defend provocative theses or antitheses may have heuristic value even if they are eventually abandoned. Freshness and controversy will always be valued, and criticism from outside is certainly needed to prevent any consensus from lapsing into stagnation.

It is less often noted, however, that provocation and novelty have their costs as well. Being wrong grandly also consumes resources and sometimes generates wasteful debating cycles, which can become more ideological than scientific. Political economists, for example, have known debates between neoclassicists, statists, and Marxists that rehearse familiar arguments for the superiority of their respective approaches without moving understanding forward either theoretically or empirically. Partisans will no doubt continue to attempt to vanquish their critics, and some will be tempted to do so by insisting on a partial or even an extreme alternative. But this field as a whole will benefit more over the long term if new theories are developed in the spirit of aggressively seeking to incorporate valuable insights generated by alternative traditions rather than by dismissing them without investigation.

In the next stage of research on trade policies, two major substantive projects would be especially fruitful. One would broaden this literature by reducing its concentration on the Unites States. We need more comparable studies of the rest of the world that are sensitive to the institutional differences among countries. The second would investigate more fully the interaction between national trade policies and international relations.

We have some English-language studies of other countries, but not many comparative analyses of policy formation. Britain's repeal of the Corn Laws and other decisions, such as entering the Common Market,

[26] Cognitive interpretations might seem to introduce some interpretive or phenomenological elements, but in many cases they are offered as primitive social-scientific hypotheses to be sharpened and tested in principle in the same manner as other hypotheses.

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have been chronicled.[27] There are historical and more recent studies of German[28] and Canadian[29] policy, and works on Japan have been mentioned.[30] A few cross-national comparative studies have also been completed,[31] but those using the same research design systematically to explain policies of two or more countries are still rare. Particularly notable is the scarcity of work on the EC as a global player. The European Community, one of the world's three trading giants, operates as a unit in international trade negotiations, but a reader who wants to understand why it makes external trade policy as it does, and responds to demands or offers as it does, will have difficulty locating comparable recent studies, at least in English.[32]

Trade policy is only one strand of economic policy, and analyzing it as a component of a more complex package is also illuminating. We do have cross-national comparative studies of industrial, agricultural, and macroeconomic policies that encompass import and export barriers and subsidies to varying degrees. Because they ask broader questions, however, their conclusions cannot easily be compared with those of the trade

[27] See Charles Kindleberger, "The Rise of Free Trade in Western Europe, 1820–1875," *Journal of Economic History* 35 (1975), 20–55; Norman McCord, *The Anti-Corn Law League, 1838–1846* (London: Allen & Unwin, 1958); J. H. Richardson, *British Economic Foreign Policy* (New York: Macmillan, 1936); Robert J. Lieber, *British Politics and European Unity* (Berkeley: University of California Press, 1970).

[28] Percy Ashley, *Modern Tariff History: Germany-US-France*, 3d ed. (New York: Dutton, 1926); Wilhelm Röpke, *German Commercial Policy* (London: Longmans, Green, 1934); H. Glissman and F. Weiss, "On the Political Economy of Protection in Germany," Staff Working Paper No. 427 (Washington, DC: The World Bank, October 1980). Companion World Bank papers cover several other countries.

[29] Richard E. Caves, "Economic Models of Political Choice: Canada's Tariff Structure," *Canadian Journal of Economics* 9 (May 1976), 278–300; G. K. Helleiner, "The Political Economy of Canada's Tariff Structure: An Alternative Model," *Canadian Journal of Economics* 10 (May 1977), 318–26.

[30] See fn. 3; also H. Richard Friman, "Rocks, Hard Places, and the New Protectionism: Textile Trade Policy Choices in the United States and Japan," *International Organization* 42 (Autumn 1988), 689–724.

[31] E.g., Peter Katzenstein, ed., *Between Power and Plenty* (Madison: University of Wisconsin Press, 1978); John A. C. Conybeare, "Tariff Protection in Developed and Developing Countries," *International Organization* 37 (Summer 1983), 441–68; Gallarotti (fn. 9).

[32] A sampling of recent works that are related in some way could include Chihiro Hosoya, "Relations between the European Communities and Japan," *Journal of Common Market Studies* 18 (December 1979), 159–74; E.L.M. Volker, ed., *Protectionism and the European Community* (Deventer, The Netherlands: Kluwer Law & Taxation Publishers, 1983); Helen Wallace, William Wallace, and Carole Webb, eds., *Policy Making in the European Community*, 2d ed. (New York: John Wiley, 1983); Miles Kahler, "European Protectionism in Theory and Practice," *World Politics* 37 (July 1985), 475–502; Meinhard Hilf, Francis G. Jacobs, and Ernst-Ulrich Petersmann, eds., *The European Community and the GATT* (Deventer, The Netherlands: Kluwer Law & Taxation Publishers, 1986); Winham (fn. 4), passim; Robert E. Baldwin, Carl B. Hamilton, and André Sapir, eds., *Issues in US-EC Trade Relations* (Chicago: University of Chicago Press, 1988); Georg Koopmann and Hans-Eckart Scharrer, "EC Trade Policy beyond 1992," *Intereconomics* 23 (September/October 1989), 207–15; and works cited earlier.

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policy literature. Still, we might learn more about the United States itself if we viewed it more often through these broader lenses. American scholars most accustomed to their relatively liberal state find it natural to focus on "trade policy" rather than "industrial policy," even though the United States actually intervenes more in its economy than official U.S. doctrine reveals. Enlarging the focus more often, to document and explain U.S. industrial and agricultural policies in their entirety and in comparative perspective, would throw new light on hypotheses designed to explain only trade policies.

Another growing literature of the 1980s and 1990s investigates different developing countries: their reasons for following diverging economic strategies, their different responses to debt and balance-of-payments problems, and their stabilization experiences and liberalization, including trade liberalization. Here, too, the more comprehensive role of the state has encouraged a research question broader than trade policy alone. It would be interesting to see more comprehensive comparative studies of these patterns of accomplishing (or not accomplishing) adjustment to international payments problems, with the United States as one of the cases.

The second project would establish better links between trade policy research and the rest of international relations. Many works in this field have abstracted from overseas influences, concentrating on the domestic sources of policy. Even if this simplification was understandable in the case of the Unites States in the past—a premise questioned in several of the books under review and in others—the trend toward opening the U.S. economy makes it increasingly dubious even for America. To what extent can the trade policies of the United States and other nations be understood as a function not only of the international power structure or increasing global economic integration, but also of particular trade negotiations, threats, or inducements from other states?

In addition, while many commentators affirm that trade and economic policies are inextricably intertwined with security conditions, scholarship has not rigorously documented such trade-security links. It is true that substantial subliteratures have investigated the relationship between military spending and economic growth, long historical cycles of war and production, East-West trade, and the use of economic sanctions for political purposes.[33] Robert Stern's book includes an interpretive

[33] For windows into those topics, see, respectively Adne Cappelan, Nils Peter Gleditsch, and Olav Bjerkholt, "Military Spending and Economic Growth in the OECD Countries," *Journal of Peace Research* 21 (November 1984): 361–73; Riccardo Faini, Patricia Annez, and Lance Taylor, "Defense Spending, Economic Structure and Growth: Evidence among Countries and over Time," *Economic Development and Cultural Change* 32 (April 1984); 487–

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survey of "Trade Policy as Foreign Policy" from 1765 to 1985 by Richard Cooper (pp. 291–322) and a critique of "The National Defense Argument for Government Intervention in Foreign Trade" by T. R. Srinivasan (pp. 337–63). But are trade policies toward allies systematically more favorable than those toward non-allies, or are variations even greater among military allies than between them and non-allies? Are some sectors more insulated from security linkages and others more sensitive? Are security linkages more powerful in periods of military crisis than they are otherwise? We have little systematic comparative research to answer questions such as these.[34]

These two projects will need contributions from each of the analytical traditions. For instance, the market-based theory could test the sensitivity of its micro and macro findings to changes in the national institutional environment by investigating the same questions in Japan, Brazil, or southern Africa. Research on how the theory relates to international trade bargaining—meaning coercive, retaliatory moves as well as accommodative compromises—would be equally interesting. We know that international market conditions can change the structure of organized interests that are ready to bring pressure to bear domestically, but we also know that governments (in Japan, for example) may be facing external negotiations at the same time. Just how these changing market forces, internal bargaining, and international negotiations all affect each other is not clearly established anywhere.

Scholars could advance the cognitive perspective by reflecting on the fate of the liberal trade doctrine during the 1970s and 1980s in the United States, where it appeared to lose some ground to notions of fair trade and industrial policy just as it seemed to be gaining adherents south of the border and in the East. How much damage can interests sustain before ideas give way, to be displaced by alternative ideas? More generally, under what conditions, cross-nationally, do publics abandon one doctrine for another, and which alternative beliefs will be favored by what conditions? Can we gather better evidence on leaders' and publics' changing

98; Joshua Goldstein, *Long Cycles: Prosperity and War in the Modern Age* (New Haven: Yale University Press, 1988); Franklyn D. Holzman and Robert Legvold, "The Economics and Politics of East-West Relations," in C. Fred Bergsten and Laurence B. Krause, eds., *World Politics and International Economics* (Washington, DC: The Brookings Institution, 1975); David Baldwin, *Economic Statecraft* (Princeton: Princeton University Press, 1985); and Hufbauer et al. (fn. 2).

[34] K. J. Holsti, in "Politics in Command: Foreign Trade as National Security Policy," *International Organization* 40 (Summer 1986), 643–72, suggests reasons for such variations. James Alt and Barry Eichengreen formalize such linkages as "parallel games," and explore their implications in "Parallel and Overlapping Games: Theory and an Application to the European Gas Trade," in Odell and Willett (fn. 16).

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attitudes toward security and economic goals in a number of countries, and use it to reach better assessments of the effects of these attitudes in economic policy formation?

The proposition that different cultural histories and national political institutions shape individual and industry preferences differently despite similar market conditions could be supported with much more systematic empirical research, either quantitive or using small-n case contrasts. Carefully designed studies of historical institutional changes as well as cross-national comparisons could investigate how industry's political preferences shift and political coalitions form and reform around economic policies. Over the longer term (President Gorbachev might ask), what market conditions are sufficient to change national institutions fundamentally, in what respects?

The international level of analysis has generated much work not considered here, and some of it could usefully be related to these questions. Bhagwati, among others, makes the argument that the existence of an international regime, the GATT, has influenced trade policies for the better since 1947 (p. 41), but this remains largely an assertion. We know that the GATT has coincided with tariff reductions as well as with the spread of new forms of protection, and we suspect there are causal relations here, but it is difficult to isolate the GATT's effects from other factors that would have operated in any case. Generally the relationship between regimes and state policies has proved to be a highly elusive one to document empirically;[35] like cognitive arguments, it requires more careful work before it can stand up to rigorous scrutiny. Similarly, the relationship between international negotiation and state policies, outside of regimes as well as within them, may prove to be a fruitful source of insight.

One might reflect that it is fine to endorse openmindedness and empirical research, but what about parsimony? Could this call for synthesis become a recipe for an endless proliferation of theories, ultimately undermining the value of theory itself as a simplifying device? Not necessarily. Simplicity is certainly valuable; most analysts would welcome a powerful, spare model that also proved equally valid empirically. The problem is that none of the available alternatives has come close to achieving this ideal.

We need to reduce complexity and theoretical proliferation, but by encompassing rather than ignoring significant dimensions and results. One indirect approach to this perennial dilemma of parsimony versus rich empirical validity would be to develop *conditioning hypotheses*, which

[35] See Stephan Haggard and Beth A. Simmons, "Theories of International Regimes," *International Organization* 41 (Summer 1987), 491–517.

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specify the conditions under which other hypotheses are most likely to be useful or valid. Say, for example, that we are interested in the level of import protection—call it variable *X*—and we have several primary variables and hypotheses—call them *A*, *B*, and so on—for explaining protection. We also have inconsistent empirical results for some of these explanatory ideas. This apparent confusion can be reduced if we can identify other variables and hypotheses—*M* and *N*—specifying general conditions under which the effects of variable *A* on *X* are amplified or suppressed. With a conditioning hypothesis in hand, we can explain why the results are positive in some studies and not in others.

To illustrate briefly, suppose *A* is the degree to which the government sees a security interest in trade liberalization, and *B* is the distribution of domestic interest group pressures for and against protection. Hypothesis *M* might identify the centralization of national tariff-setting institutions as conditioning the effects of *B* and perhaps *A* as well. The 1934 change in U.S. institutions moved decisions on specific products to the executive, which made it more difficult for interest groups to make pressures effective, and probably also amplified the effects of executive security goals on trade policy.[36] This illustration also suggests that some conditioning hypotheses may be found among the present menu of "primary" propositions. If so, the simplifying power of such research will be greater still.

Take, for another example, the proposition that a decline in an industry's market share and the resulting group lobbying will make trade policy more protective. This proposition should be less useful when the policy at stake is more like a collective good, and more useful when the good is excludable.[37] For instance, U.S. policy concerning the nature of GATT institutions is typically more like a collective good for Americans, in contrast to policy regarding imports of particular items such as copper or motorcycles.

This strategy of seeking conditioning hypotheses can be pursued by means of both formal deduction and more informal and inductive methods. Modelers and case-study analysts alike can work toward greater power and clearer structure in the emerging theory.[38] If some ordering ideas were shown—not merely asserted—to have greater simplifying

[36] Lake (p. 225) notes historical cross-national contrasts supporting the importance of state centralization.

[37] See Joanne Gowa, "Public Goods and Political Institutions: Trade and Monetary Policy Processes in the United States," *International Organization* 42 (Winter 1988), 15–32. On the other hand, changes in the structure of trade interests over the long term might also reshape the institutions that permit this result.

[38] This suggestion is elaborated further in Patricia Dillon, John S. Odell, and Thomas D. Willett, "Future Directions in the Analysis of Trade Policies," in Odell and Willett (fn. 16), 273–83.

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power than others, then we could look toward a hierarchy of hypotheses. Such a hierarchy (which is a useful but probably unattainable ideal) would consist of a set of master or "higher" variables that "regulate" the effects of others attached to them, arranged symbolically in an inverted V pattern. In any case, a structure does seem to be crystallizing in this literature. Concentration on this methodological strategy would accelerate this development, and help us enjoy the benefits of a more comprehensive theory while reducing the unavoidable tension between parsimony and rich understanding.

The extent to which we will continue to enjoy benefits (and costs) of international trade itself for another decade will of course depend on many forces beyond scholars' ideas, though such studies might have some effect in subsequent history. In any case, we can be sure that today's lively trade politics will supply much new material for a fresh assessment a decade hence.

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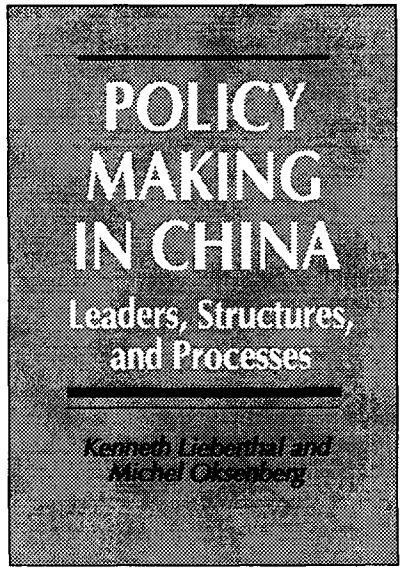

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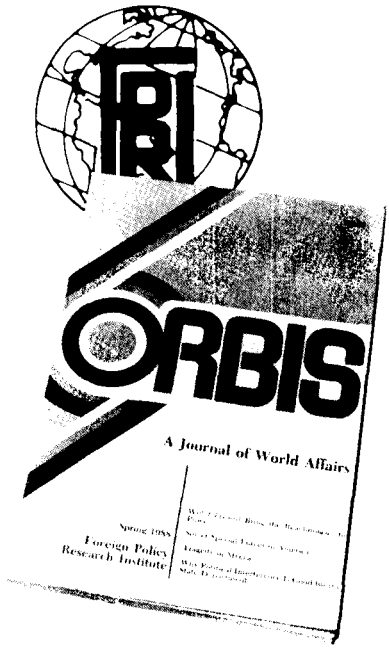

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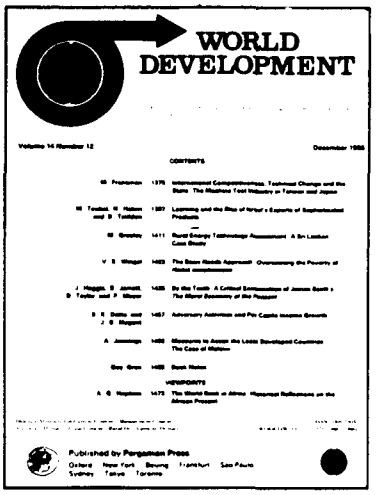

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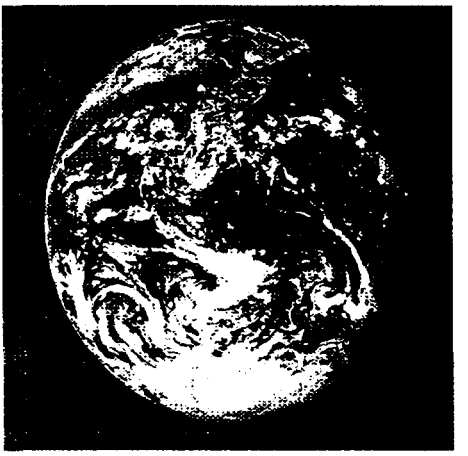

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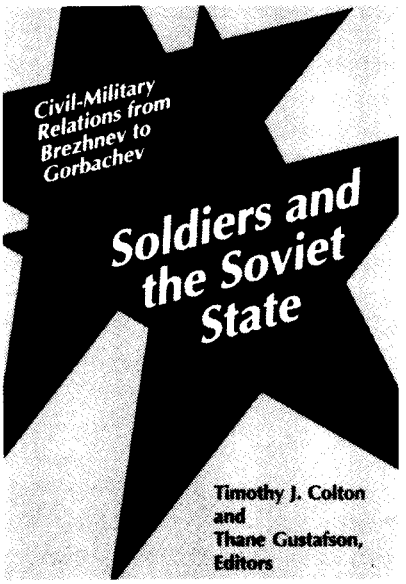

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